Leveraging Multiple Transmission Channels to Promote Sustainable Finance in Banks Across Romania, Poland, Hungary, and the Czech Republic in 2024

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Abstract
This study examines how sustainable finance (SF) practices are being implemented in the banking sectors of Romania (RO), Hungary (HU), the Czech Republic (CZ), and Poland (PL). It explores five main channels through which SF is disseminated and adopted, including EU regulation, shared practices from mother banks/regional financial groups, due diligence and terms levied by multilateral development banks, industry-led efforts and affiliations to various associations, and advocacy and pressures from civil society, activist shareholders, and media. Each channel is assessed through multiple indicators, using primary and secondary data, to determine the prevailing channel for transmitting SF to the banking sectors of the four countries. Using process tracing methodology, evidence shows that all channels contribute to integrating sustainability practices. Still, strict regulations exert the strongest pressure when applied directly to the banks in these countries or indirectly to their financial groups. Progress appears minimal when evaluating the success of transitioning the banking sector from a business-as-usual paradigm to sustainable banking. The ratio of green assets held by banks in the analyzed countries is negligible, compliance with stricter standards such as those of the NZBA is lacking, stakeholders' scrutiny is shallow and the communication regarding SF practices seems more of a public relations effort. At the same time, banks reflect the current state of the economy and society in these countries, where the pursuit of sustainability goals is still in its early stages.

Keywords*: banking; EU regulation; Hungary; Poland; Romania; sustainable finance; the Czech Republic*

Introduction

Sustainable finance (SF), which strongly emphasizes environmental, social, and governance (ESG) issues, has gained prominence in response to the 2030 Agenda for Sustainable Development. This global initiative, which includes the 17 Sustainable Development Goals (SDGs), underscores the pivotal role of the financial sector in steering the economy toward sustainability and eradicating poverty. The Paris Agreement further underscores the need to direct funding towards low greenhouse gas (GHG) emissions and climate-resilient development. In this context, it is key to examine whether banks' incentives align with the traditional profit maximization goal or if they are incorporating newer ESG considerations. This article evaluates the adoption of SF practices by 18 public commercial banks listed on the Romanian, Polish, Hungarian, and Czechian stock exchanges and investigates the pathways through which these practices have been integrated into these banks' business models.

Understanding the impact of SF practices on the banking sector in these four countries requires investigating how these practices reach the banks, their sources, and how they are spread. The study examines how SF practices are transmitted in the banking sectors in RO, PL, CZ and HU (RPCH countries in this study). Based on research and evidence, the study identifies five main channels through which SF is spread and adopted: 1) following EU regulations, 2) adopting practices from parent banks/regional financial groups, 3) complying with terms set by multilateral development banks (MDBs), 4) industry-led efforts and affiliations with various associations, and 5) advocacy and pressure from civil society, activist shareholders, and the media. For each channel, the study defines a set of variables and uses relevant indicators to assess their importance and the overall strength of that variable as a channel for SF practices transmission.

Since the 2015 Paris Agreement, SF practices have been rapidly adopted. MDBs were among the first to integrate SF practices into their lending and investment decision-making. In Central Eastern Europe (CEE), progress was observed after the introduction of the European Commission's Sustainable Finance Action Plan in 2018. The financial sector in the EU faced stricter regulations in 2019 with the introduction of the Sustainable Finance Disclosure Regulation (SFDR). Banks in CEE have responded to these regulations by taking various measures, including issuing green bonds, collaborating with ESG raters to obtain their ESG score, and creating specially labeled financial products like green or sustainable bonds and loans. They have also initiated credit lines with MDBs to finance specific sectors such as renewable energy and healthcare. Assessing the sustainability practices of banks has been challenging due to the inadequacy of timely and accurate data. Regulators have taken decisive action to address this issue by implementing regulations to boost transparency and accuracy in sustainability reporting. The financial industry also developed standards and alliances to establish the best SF practices. Nonetheless, the sustainability data remains unstructured and potentially misleading as of 2024.

The research is structured as follows: Section 1: the literature review clarifies SF from various perspectives, describes the chosen theoretical framework for the research, highlights relevant regulations and their impact on banks, and explains the choice of the four RPCH countries for the study; Section 2: the methodology, presents the research method as content analysis based on primary and secondary data, introduces five hypotheses, and defines the sample of banks and research questions; Section 3: results and discussions show the findings after testing each hypothesis. The conclusions section provides a summary.

Literature review and hypothesis development

Sustainable finance

Marrying "sustainable" and "finance" to develop the concept of "sustainable finance" is a relatively recent endeavor, and it could be argued that their union is more of an oxymoron than an achievable partnership (Bodellini, 2021). One definition that could be used for SF is the one from EU law: “Sustainable finance generally refers to the process of taking due account of environmental, social and governance considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects.” (European Union law, n.d.). As per the working definition of the Environmental Programme of the United Nations (UNEP), sustainable development requires changes in how financial assets are used and valued in relation to real wealth. A sustainable financial system generates, values, and transacts financial assets to serve the long-term needs of an inclusive, environmentally sustainable economy (UNEP, 2015, p. 13). The role of finance is emphasized in Article 2c) of the Paris Agreement, which states that to meet the Agreement's objective of "strengthening the global response to the threat of climate change, in the context of sustainable development and efforts to eradicate poverty", signatories will have to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" (UNFCCC, 2015). Moreover, the role of finance is captured in every SDG.

The official definitions of SF vary widely, and there is no consensus on what it entails (Migliorelli, 2021, p. 1; Ozili, 2022). Some authors believe it is about how finance interacts with economic, social, and environmental issues and how it fosters sustainable development (Schoenmaker & Schramade, 2018, 2018). Others link it with investment decisions that direct capital towards sustainable investments and monitoring climate change under the 2030 Agenda (Chiu, 2021; Sisodia & Maheshwari, 2023). "Sustainable finance" and "ESG finance" are often used interchangeably to cover green finance, climate finance, social finance, and ESG investing. To distinguish between these, UNEP notes that SF includes ESG and economic aspects, while green finance includes climate finance but not social and economic aspects. Climate finance is a subset of green finance (Forstater & Nuohan Zhang, 2016).

Theoretical framework

SF is becoming a popular area of research, but many papers on the topic lack a specific theoretical framework and rigorous analysis compared to more established concepts (Ozili, 2022). The heterogeneity accompanying the concept of SF not only hinders research development but also increases the risk of greenwashing, misuse of labels such as social, green, and sustainable, and drawing incorrect conclusions about companies and sectors, which could lead to misallocation of funds and impact the cost of funding (Migliorelli, 2021). Sisodia and Maheshwari (2023) remarked that while there is abundant research on various aspects of sustainable development, there is very little research on SF.

This research draws from multiple theoretical frameworks to study the relevant channels through which SF propagates into the financial sectors of RPCH countries. SF is a combined concept that crosses various research fields, from finance and its role in advancing economic development to sustainability topics such as climate change, biodiversity and inclusion. SF is sometimes analyzed in a theoretical framework specific to finance. For example, Jemel-Fornetty, Louche, and Bourghelle (2011) use institutional and convention theories as the theoretical framework in their research on ESG investing. The authors study how collective beliefs impact stock value and investment processes, focusing on integrating ESG considerations into investment decision-making and valuation. Convention theory developed on the early work of Orléan (Boyer & Orléan, 1992; Orléan, 1989) examines how conventions emerge out of mimetic processes. This theory is also consistent with the one proposed by Ozili (2022) under the "peer emulation theory". In uncertain situations, economic agents often mimic each other. Larger players and MDBs innovated SF practices, followed by smaller financial institutions, sometimes voluntarily and sometimes due to mandatory requirements. The transition from traditional finance to SF involves a process of diffusion based on social and cultural similarities between agents (Boyer & Orléan, 1992).

The role of MDBs is instrumental in providing funding and, more recently, in setting best practices around SF. The European Investment Bank (EIB), which calls itself The Climate Bank, has a roadmap of "gradual increase [of] the share of … financing dedicated to climate action and environmental sustainability to exceed 50% of … operations in 2025" (EIB 2020). EIB was the first entity to ever issue a green-labeled bond in 2007. The International Finance Corporation (IFC) started issuing its own labeled bonds to secure the funding needed for its beneficiaries. MDBs set standards for sustainable banking, bridge the gap between developed and developing countries and engage with governments for large projects and blended finance (Mendez & Houghton, 2020; World Economic Forum, 2023; Erforth & Keijzer, 2024; Spielberger, 2024).

The multilevel perspective (Geels, 2002; Geels & Schot, 2007) or system disruption theory (Ozili, 2022) is used to understand transformational change at the system level. It explores the impact of innovation on industries, such as carbon markets, ESG ratings, green bonds, and the banking system's response to climate change risks. The financial system is under pressure due to changing priorities like SDGs and net-zero GHG emissions. This pressure should push the financial system to shift from conventional to SF practices. The research also considers theories such as shareholders, stakeholders, and creating shared value. It explores the shift from traditional finance to SF Schoenmaker (2017), emphasizing the creation of shared value without trade-offs (Schoenmaker & Schramade, 2018; Porter & Kramer, 2019). Companies, including banks, can generate economic value while benefiting society. Adopting the creating shared value theory requires reconceiving products and markets, redefining productivity in the value chain, and creating an enabling environment (Bockstette et al., 2021).

These theories enabled the identification of the factors that impact the adoption of SF practices in the chosen CEE countries. Banks are influenced by decisions made at their headquarters, efforts made by the industry, pressures from various stakeholders, and the need to comply with regulations. This creates an environment of both uncertainty and opportunity. Some banks may react quickly to new rules and communicate with stakeholders in a way that drives business forward, while other banks may become laggards.

SF and the impact of regulation

The EU is developing a regulatory framework for sustainable development to enhance transparency in financial markets and improve local and global ESG practices. Key initiatives include the Non-Financial Reporting Directive (NFRD), the EU Taxonomy filtering green investments, the Corporate Sustainability Reporting Directive (CSRD), and the upcoming EU Green Bonds Standard. These regulations promote greater business transparency and accountability in social and environmental issues.

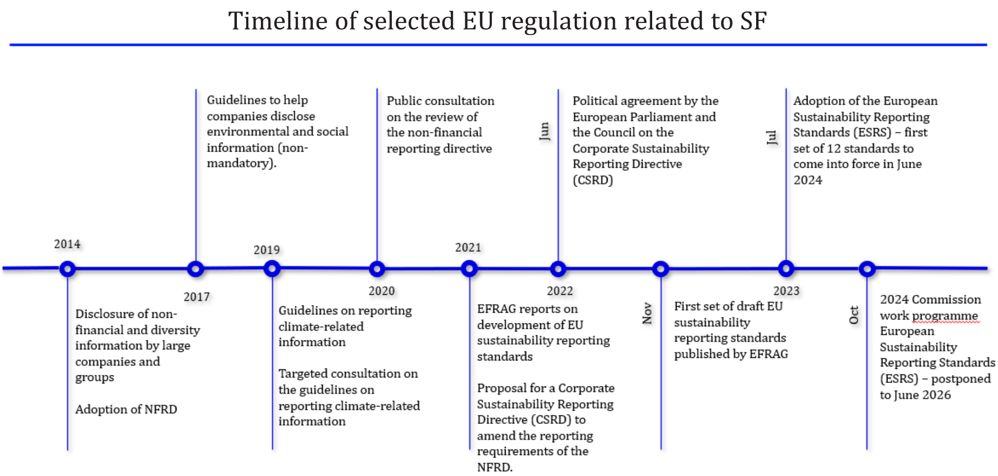

Figure 1 – Evolvement of EU regulation. Source: Authors' research results/contribution

The EU framework for SF aims to enhance banks' disclosures and encourages innovation in the financial sector related to sustainability-linked products. It also reflects the double materiality perspective, considering both the role of finance in enabling sustainable economic activities and the risks associated with ESG factors. The role of banks can not be underestimated, Scholtens (2006) arguing that "bank lending potentially has more impact on sustainable business practices compared to the stock market".

Why the four countries in the sample – RO, PL, HU and CZ (in short RPCH)?

The selected countries share similarities and differences. Their financial sectors transitioned from communism to free markets after the fall of the Soviet Union. They went through banking crises before emerging as universal commercial banks, many of which are owned by foreign financial groups (Bonin et al., 2012; Fungáčová et al., 2019). The financial sector in these countries is mainly dominated by commercial banks, which provide most of the financial intermediation. The asset management sector has emerged as an alternative to traditional financial services. Wiesiołek and Tymoczko (2015) argue that banks in CEE have an exaggerated reliance on household loans and deposits, impacting the flow of funding to businesses. They question how banks might be induced to steer their credit flows away from households and toward manufacturers. When comparing the financial sectors, PL has the largest share of financial assets, while RO has low financial intermediation and financial literacy. All four countries became EU members, with some planning to adopt the euro. High migration impacted all countries, but RO was particularly negatively impacted (Chand, 2024).

Methodology

This article is based on empirical research conducted from May to September 2024. Empirical evidence was gathered using qualitative research methods and tools, such as case studies, observation, and document review. The qualitative research involved a detailed analysis of the collected data. Triangulation was employed to ensure data reliability and add rigor to the research, encompassing various types of data collection (secondary and primary data) and reliance on multiple public information sources. The hypotheses, developed based on a process tracing methodology to assess causation between the different SF propagation channels and the change observed in the banks' behaviors (George & Bennett, 2005), were tested for each of the 18 banks in the sample. Conclusions were drawn regarding the extent to which SF practices were adopted and the channels through which these practices were implemented in the banks. This research conducts a *content analysis of primary data*, including public information such as sustainability reports, annual reports, news, disclosures, consolidated assessments of the regulators, and *secondary data* such as ESG scores. It is designed as a *cross-sectional study covering public (listed) banks in four countries - RPCH*. This *research seeks the answer to the following two questions: 1) "How are SF practices transmitted into the Romanian, Polish, Hungarian and Czech banking sectors?" and 2) "Which of the transmission channels of SF practices dominate?".* The answers to these questions are important for understanding why public banks in the four countries adopt SF practices and how to accelerate the transition to sustainable banking - banking aligned with Article 2c) of the Paris Agreement, which envisions: "[m]aking finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development".

This study examines the SF practices of *public banks listed on the RPCH stock exchanges with universal commercial banking profiles*. Private (non-listed) banks are not considered in the study due to the challenges in securing sound and timely data for these entities. Indirectly, financial groups of RPCH banks are included in the study. Also indirectly, MDBs such as the IFC, EIB and European Bank for Reconstruction and Development (EBRD) are part of this research. One issue with addressing the financial system in the sample countries is the limited number of public banks, with only three banks listed on the RO and HU stock exchanges and two banks on the CZ stock exchange, while in PL, the sample is more consistent, including ten banks. While the number of public entities increases when considering subsidiaries of international or regional financial groups (i.e., Citibank is a listed bank and operates via branches in different geographies, including in CEE), the focus on entities in RPCH diminishes in the consolidated reports published by the headquarters listed in other countries. To mitigate the different sample sizes in the four countries, this research does not seek a comparison between the banking sectors in the four countries; rather, it looks at the public banks themselves, each representing a separate case study. When assessing the behavior of each bank in adopting SF practices and the multiple sources of know-how and various stakeholders, the incentives for each bank could be different in different countries. The similarities should be significant, at least regarding regulatory pressures, as the primary stream of regulation remains with the European Supervisory Authorities (ESAs).

Considering cooperatives, hundreds of banks are licensed to grant loans or accept deposits in the four countries, and the largest banks are not necessarily listed entities. By considering only public banks, the sample includes the largest banks in RO (Banca Transilvania), PL (Powszechna Kasa Oszczednosci Bank Polski SA - PKO SA) and HU (OTP Bank Nyrt.), but not in CZ, where the largest bank by assets size is Československá obchodní banka (ČSOB) with $83.6 billion in total assets at Eo2023 (ČSOB, 2023). Another mention is that in RO, HU and PL, the market-leading banks originated in the respective country and remain primarily locally owned (Banca Transilvania was established as a regional bank by local Romanian entrepreneurs, while OTP Bank and PKO SA were stated-owned banks initially structured as savings banks), while in CZ, ČSOB is owned by the Belgium-based KBC Group. The large financial groups in Europe, such as KBC Group, ERSTE Group, Raiffeisen Bank International, BNP Paribas, Société Générale, Citibank, ING Group, Intesa Group, Santander Group, etc., are likely to be present in two or three or even all four countries with local entities or branches. Table 1 lists the banks included in the study from four different countries. There are a total of 18 banks, all of which are commercial diversified banks. The largest bank in terms of asset size is Eo2023 PKO SA, located in PL, and the smallest bank by asset size is Patria Bank SA, located in RO.

Table 1. Banks included in the study

Company Name	Country of Exchange	Exchange Name	Total Assets, Reported (FY0, USD, Millions)	Main Financial Group
PKO Bank Polski SA	Poland	Warsaw Stock Exchange	127,521	PKO Group - Poland
OTP Bank Nyrt	Hungary	Budapest Stock Exchange	114,223	OTP Group - Hungary
Bank Polska Kasa Opieki SA	Poland	Warsaw Stock Exchange	77,737	Unicredit Group - Italy
Santander Bank Polska SA	Poland	Warsaw Stock Exchange	70,345	Santander Group - Spain
Komercni Banka as	Czech Republic	Prague Stock Exchange	67,837	Société Générale - France
ING Bank Slaski SA	Poland	Warsaw Stock Exchange	62,388	ING Group - Netherlands
mBank SA	Poland	Warsaw Stock Exchange	57,715	mBank Group - Poland
BNP Paribas Bank Polska SA	Poland	Warsaw Stock Exchange	40,944	BNP Paribas Group - France
Banca Transilvania SA	Romania	Bucharest Stock Exchange	37,565	BT Group - Romania
MBH Bank Nyrt	Hungary	Budapest Stock Exchange	32,030	Bayerische Landesbank - Germany
Bank Millennium SA	Poland	Warsaw Stock Exchange	31,916	Millennium BCP - Portugal
Alior Bank SA	Poland	Warsaw Stock Exchange	22,919	Alior Group - Poland
Moneta Money Bank as	Czech Republic	Prague Stock Exchange	20,499	Moneta Group - Czechia
Bank Handlowy w Warszawie SA	Poland	Warsaw Stock Exchange	18,662	Citibank Europe PLC - Irland
BRD Groupe Societe Generale SA	Romania	Bucharest Stock Exchange	18,619	Société Générale - France
Bank Ochrony Srodowiska SA	Poland	Warsaw Stock Exchange	5,602	Ochrony Srodowiska - Poland
MBH Jelzalogbank Nyrt	Hungary	Budapest Stock Exchange	2,614	MBH Investment Bank - Hungary
Patria Bank SA	Romania	Bucharest Stock Exchange	927	Patria Bank Group - Romania

Own representation, Source: consolidated data from public information (banks' annual reports)

Research questions and hypothesis

Research question: How are SF practices channeled into the RPCH banking sectors? "Which of the transmission channels of SF practices dominate?" The research considers five main channels through which SF is disseminated: *1) implementation of EU regulation, 2) shared practices from mother banks/regional financial groups, 3) due diligence and terms imposed by multilateral development banks (MDBs), 4) industry-led efforts and affiliations to various associations, and 5) advocacy and pressures from civil society, activist shareholders and media. Each channel is evaluated using various variables, each based on multiple indicators.*

The study evaluates how banks in RPCH adopt sustainable finance practices using qualitative and quantitative indicators. The report is based on public data to reduce bias and acknowledges the potential for greenwashing (World Resources Institute, Lee & Carter, 2024). SF practices can develop in a bank directly due to incentives and pressures from regulations and stakeholders or indirectly based on SF practices passed on from the bank's parent or financial group. Indirect adoption suggests a delay, as the mother banks adopt regulations or standards first and then disseminate them to daughter banks.

Hypothesis, variables and indicators

Hypothesis 1: SF practices are adopted to implement EU regulations. The Sustainable Finance Action Plan regulatory package enforces SF practices in the banking sectors. The variables to assess this hypothesis:

1) *disclosure of green assets ratio (GAR, stock of loans) aligned with the EU taxonomy*, of green turnover and capital expenditure (CapEx) for 2023 (in line with the EU regulation: EU Taxonomy 2020, CSRD 2023, Pillar 3 reporting framework 2024) (EBA, 2022)? Source of data: reports, statements and news.
2) *manufacturing of SF products* – green or social or sustainable bonds and loans, issuance of green, social, sustainable bonds (in line with EU regulation: EU Taxonomy 2020, EU Green Bond Standard 2023)? Source of data: reports, statements and news.

Hypothesis 2: Mother banks/financial groups share SF practices. The variables to assess this hypothesis:
1) *issuance of sustainability reports* – How are the banks in the sample issuing their sustainability reports? On a standalone basis or do they consolidate the information with mother banks'/financial group's sustainability reports (integrated reporting)?
2) *sustainability/green bond issuance framework* – Are the banks in the sample issuing green or ESG bonds on their mother banks' frameworks, such as the group medium-term note (MTN) programs, or have they set up issuance frameworks independently?

Hypothesis 3: SF practices are adopted to align with the best industry-led standards - industry-led efforts and associations (voluntary self-regulation). The variables to assess this hypothesis:
1) *Industry-led efforts*—Are the banks preparing sustainability reports under the GRI? Do banks issue sustainability reports following the Task Force on Climate-related Financial Disclosures (TCFD)? Do banks consider the GHG Protocol? Do banks fill out questionnaires for CDP?
2) *Adherence to industry standards and multi-stakeholder initiatives* - Are banks signatories of Glasgow NZBA or other relevant associations (UN Global Compact, UNEP Finance Initiative, Equator Principles)?

Hypothesis 4: SF practices are adopted to align with covenants and terms set by MDBs. SF is disseminated into the banking sector via covenants, standards and due diligence imposed by MDBs when providing loans and grants. The variables to test this hypothesis:
1) *Sustainability-linked loans/grants* - Do banks secure loans and grants with sustainability-linked contingencies from the EBRD, EIB, and IFC?
2) *Partners for MDBs* - Are banks partners of MDBs for general programs for SMEs or other beneficiaries?

Hypothesis 5: SF practices are adopted to respond to pressure from civic society, activist investors and media. SF is disseminated into the banking sector via advocacy and pressures from stakeholders and media. The variables to test this hypothesis:
1) *ESG scoring and controversies from media coverage and activists* as of August 2024 – Did the bank receive an ESG Combined score (which integrates controversies) (LSEG, 2023)? How did the bank's ESG score trend in the last three years?
2) *Shareholders' resolutions* (Frank & Mishra, 2024)- Are there shareholders' resolutions targeting sustainability topics?
3) *Sustainability-related indices* – Is the bank included in FTSE4GOOD and other sustainability-label indices?

Results and discussion

Banks had to report the GAR for 2023 in 2024. Despite being public, this data is hard to find in lengthy, sometimes local language-only, consolidated reports. The regulation does not specify a threshold for the GAR, and its value is low for all banks (about 1% based on specific indicators). Further development of the regulation may include setting thresholds. The accuracy of the data in 2024 is uncertain due to complexities in the GAR methodology.

The Energy Efficiency Directive allows banks in all covered countries to offer green mortgage products, and they are also able to provide social loans and mortgages for affordable social housing through local governmental programs. The RePower EU and Renewable Energy Directive have simplified the process for granting loans for renewable energy projects. Public subsidies for electric vehicles have also created new opportunities for banks. These opportunities allow banks to use various regulations to facilitate their decision-making in providing labeled loans. Regarding green, ESG, and sustainability-linked bonds, 10 out of 18 banks sampled have not issued green or ESG bonds as of September 2024. The first banks to issue green bonds were ING Bank and PKO Bank via their mortgage bank arm. In CZ and RO, non-public banks were the first issuers, and in HU, multiple banks issued their first labeled bond in 2021. Sustainability-linked bonds were only issued in CZ and PL but not by the banks. Some banks have started issuing sustainability (ESG) bonds, but how they will use the proceeds is unclear. For example, Santander Bank Polska SA retired its ESG bonds early, so the bank did not provide the funding it planned with the proceeds.

The financial groups and ultimate parents of banks in RCPH play a crucial role in the region. The sampled banks usually produce sustainability reports following the GRI guidelines but sometimes refer to the group's consolidated reports for more complex information. Local banks without foreign groups rely on their resources to prepare sustainability reports and issue green bonds. The other half of the sample group collaborates with their ultimate parent for sustainability reports and issuing ESG and green bonds.

Regarding sustainability reporting, all 18 banks in the sample use GRI and many followed TCFD guidelines for climate-related information. They also utilize the GHG Protocol, reporting Scope 1, 2, and 3 emissions. With the introduction of CSRD reporting requirements, the existing framework was impacted, and banks began to do simple reporting under CSRD. CDP invited most banks to answer their annual questionnaire and Santander Bank Polska SA achieved high CDP scores. None of the banks are members of NZBA, but some are signatories of the UN Global Compact.

The MDBs are essential partners for banks in CEE, especially the EIB, which focuses on financing sustainable cities, SMEs, sustainable energy, innovation, and engaging with local civil society and NGOs for financed projects.

Table 2 – EIB's working history with partners in selected countries

Country	Start of operations	Projects financed lifetime	Financed lifetime	Local partners
CZ	1992	226	€29.41bn	9 (including Komercní Banka a.s. & Moneta Money Bank a.s.)

HU	1990	204	€24.92bn	4 (the 3 banks included in this study are not active local partners)
PL	1990	612	€95.24bn	20 (Bank Millenium S.A.; Bank Ochrony Srodowiska S.A.; BNP Paribas Group; PKO Bank Polski; Santander Bank Polska; Pekao with its leasing company)
RO	1991	204	€19.96bn	12 (Banca Transilvania, some entities from BRD group but not the bank, Patria Bank since 2024)

Own representation, Source: EIB (EIB, n.d.)

The EBRD provides funding for the four countries in smaller amounts than the EIB. EBRD funds sustainable infrastructure and industry, commerce, and agribusiness. IFC focuses on impact investing with positive social and environmental impacts in line with the 2030 Agenda. MDBs engage with banks in selected countries, and projects financed by MDBs have covenants such as allocating funds to projects targeting climate change mitigation. MDBs assess partner banks based on environmental, social, and profitability criteria.

The research data shows that in September 2024, fourteen out of eighteen banks had both an ESG score and an ESG Combined score with LSEG. The difference between these two scores, known as controversies, is based on evidence from various third-party public sources. However, the ESG Combined Score may not always capture negative public opinion or "bad press" concerning a bank's ESG decisions and actions. Controversies explain the difference between the ESG score and ESG Combined score for larger banks such as Banca Transilvania, Santander Bank Polska SA, OTP Bank Nyrt, and BRD Groupe Société Generalé SA. Not all ESG scoring methodologies consider controversies.

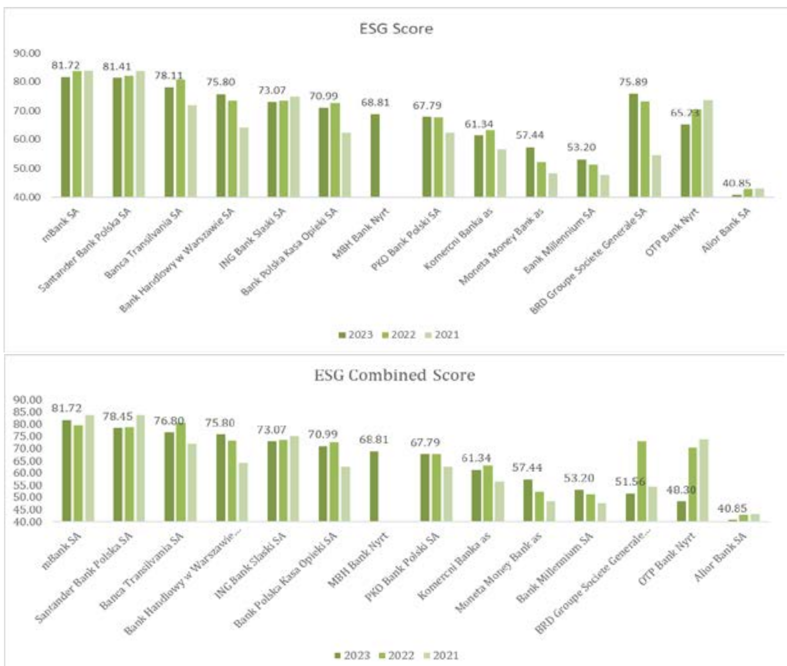

Chart 1 – ESG Score and ESG Combined Score LSEG Own representation, Source: LSEG

No Polish bank was included in the FTSE4GOOD Developed 100 index, but BNP Paribas, the parent company of BNP Paribas Bank Polska SA, is part of it. Four banks are included in the FTSE4GOOD Emerging index (Banca Transilvania, OTP, Komercní banka & Moneta Money Bank). Bank Polska Kasa Opieki SA, mBank SA, PKO SA, and Santander Bank Polska SA are part of the Solactive ISS ESG Screened Europe Index NTR. Shareholders' resolutions are becoming a tool for addressing human rights and climate disclosures at smaller European banks. Resolutions regarding the financing of fossil fuel industries have been raised, but they are not yet a significant pressure point because banks have low direct emissions. At the same time, banks enable high-polluting activities through lending ("financed emissions"). Relevant non-governmental organizations (NGOs), such as Climate Action 100+, are not focusing on the banking sector at this point.

Conclusions

This research sought the answer to the following two questions: 1) "How are SF practices transmitted into the Romanian, Polish, Hungarian and Czech banking sectors?" and 2) "Which of the transmission channels of SF practices dominate?". Five relevant channels were assessed using a qualitative process tracing method to develop hypotheses, which were then tested with the help of primary and secondary empirical data. Following the process tracing methodology, the first step was to identify the change in banks' practices, and indeed, SF practices were adopted in various degrees by the banks in the sample. Gathering the evidence on SF practices adoption was based on public data and the tools of data collection and analysis were case studies, observation and document analysis. The process of developing SF practices was traced back to the 2015 Paris Agreement, which was the true accelerating event for the banks in the region.

The formal regulation following the 2018 Action Plan on Sustainable Finance – the EU regulation channel - provided the coercive framework under which banks had to improve their disclosure and sustainability reporting. This meant, for example, that they started measuring their carbon footprint, generally only Scope 1 and Scope 2 emissions, or the amount granted in affordable housing loans. The industry – another of the channels investigated as potentially explaining the propagation of SF practices in the region - has a vital role in driving the adoption of SF practices, banks following industry-developed standards such as the GRI for sustainability reports drafting or issuance of green bonds following the ICMA Green Bond Principles. The role of MDBs and financial groups in spreading SF practices is somewhat weaker, according to the evidence, because some of the banks in the sample are local banks, so they do not benefit from expertise from a mother from the Western part of Europe and because MDBs engage with the local banks in a very narrow and targeted way supporting projects with clear objectives. Of course, MDBs and large financial groups provide guidance and leadership, so their practices are mimicked by the banks in the sample voluntarily or involuntarily (when advisors, auditors, or service providers spread their practices). The small number of controversies (such as news pointing to bad practices), the lack of shareholders' resolutions and the limited actions of the NGOs targeting the banks point to the negligible impact of the fifth channel – the advocacy and pressures from civil society, activist shareholders, and media.

The study utilized various theoretical frameworks to identify the five channels for transmitting sustainable finance (SF) practices, formulate and test hypotheses, and determine relevant indicators for measuring SF. Relying on multiple frameworks to identify the relevant channels of SF propagation was necessary because SF currently lacks an established theoretical framework. When a framework is used, it is often borrowed from either finance or sustainable development theories. Looking at how SF practices propagate within the financial system from CEE countries, one theory that stands out is convention theory or peer emulation theory. Faced with pressures and uncertainties in adjusting to the new sustainable banking standard, banks in the region are trying to learn from leaders – such as the large financial groups, their mother banks or MDBs. This approach is also consistent with neo-institutionalism mimetic isomorphism. Although conventions and endorsed best practices emerged, just to give some examples, the practices of issuing sustainability reports, contributing to CDP questionaries or developing internal frameworks for granting loans labeled "green house loans", the financial system is far from reaching a common denominator on what to include in the sustainability reports or what actions to take to reduce the "financed emissions". This is where regulation steps in to provide a level playing field and to reduce the risks of greenwashing.

The banking sector faces many challenges, mirroring the success and failure of every industry transitioning. The European Commission sought to accelerate progress within the financial industry by implementing strict transparency and disclosure regulations ahead of mandatory reporting requirements for companies. However, the evidence presented in this article suggests that banks are approaching change carefully and waiting for signals from the economic actors. While communicating about transforming their business model, they are also closely monitoring the actions of industry leaders and the trajectory of sustainability efforts. This study does not aim to establish a correlation between the size of banks and their ability to implement SF practices. However, it appears that the leading banks in each country are striving to legitimize their SF practices, so they are dedicating resources to enhance their internal practices, transparency, and product offerings.

In summary, when examining the 18 public commercial banks listed on the stock exchanges in RO, PL, CZ, and HU, the adoption of SF practices is influenced by the EU regulation, even when this regulation is soft, such was the case prior to CSRD implementation, and by attitudes and support from banks' financial groups and terms imposed by MDBs – where the banks in the sample had larger financial groups or more extensive financing programs with MDBs. Peer pressure from industry, which has moved to develop standards and alliances of good practices, also plays a prominent role. Other stakeholders, such as the media, activist shareholders, or NGOs, have a more minor influence. The effort in adopting SF practices is greater when regulations are stricter, and even smaller banks have recently shown interest in SF practices. Moreover, the stricter the regulation, the greater the incentives to merely make superficial changes, and the data show that this is currently the case with SF practices. Referring to Article 2 of the Paris Agreement, in which banks are required to support the pathway to a sustainable future, this future may only follow one avenue, in my opinion – a complete abandonment of the separate accounting for ESG factors. The ESG factors will either be deemed too abstract to integrate into banks' decision-making or fully absorbed into day-to-day practices and operations, effectively becoming the new standard for conducting banking.

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