ISSN: 2958-2326

AJoCsOpen
Sharing Knowledge in Business

African Journal of Commercial Studies
Publisher's Home Page: https://ijcsacademia.com/

Research Paper | Peer Reviewed | Open Access

Assessing Environmental Social Governance (ESG) In Zambia's Banking Sector

Namunyola Nachizo Hildah[1]*, Dr. Austin Mwange[1]

[1]*Graduate School of Business, University of Zambia, Lusaka, Zambia*
* Corresponding Author

African Journal of Commercial Studies, 2025, 6(3), 107–118
DOI Link: https://doi.org/10.59413/ajocs/v6.i3.11

Article Info

Volume 6, Issue 3

Publication history:
Accepted on 14 May 2025;
Published: 27 May 2025

Article DOI:
10.59413/ajocs/v6.i3.11

Abstract

Environmental Social Governance (ESG) has taken centre stage in the global financial sector due to pressing global challenges such as natural disasters and climate change, governance failures and human rights abuses. These challenges present opportunities to financial institutions strategically implementing ESG. Thus, the purpose of this study was to assess ESG in Zambia's banking sector and extend knowledge by evaluating the level of ESG awareness, identifying current ESG practices and analyzing the relationship between ESG awareness and the implementation of ESG practices and the impact of ESG on banks financial standing. The study highlights any informational, implementational and policy gaps that exist in the Zambian banking sector, aiding donors, investors, businesses and government to foster sustainable development. Literature reviewed showed that countries in the global north have made significant progress in implementing ESG considerations, unfortunately, this is not the case for sub-Saharan Africa, Zambia included. Most of the research on ESG in Zambia, focuses on the mining sector, little is written about the financial sector. The little being done is uncoordinated and mainly undocumented. resulting in an evidence and knowledge gap on ESG awareness and practices in the banking sector. The methodology was based on Saunders Onion Philosophy using positivism and deductive approaches. The study collected both quantitative and qualitative data from a sample of four banks drawn from a population of 15 commercial banks. The findings and associated interpretation showed that the level of ESG in Zambia's banking sector can be considered high, highlighting the fact that despite, ESG still emerging, it is an important topic of conversation and strategic decision for banks. Common practices included board ESG supervision, tree planting initiatives, waste management ventures, public disclosures, community engagements and volunteerism, climate smart building, sustainability policies and water re-use and management. The study found that ESG awareness leads to better ESG implementation among Zambian banks, a positive relationship. A self-assigned positive relationship between ESG awareness and implementation and ROA was recorded, however, due to the infancy of ESG in the banking sector in Zambia, this study was unable to ascertain a positive, negative or neutral impact on finances through regression analysis. This paper concluded that ESG is a concept well known in Zambia, however, we summarily recommend that ESG metrics be agreed on nationally, the regulatory framework be reviewed to include mandatory ESG reporting and banks dedicate more resources to staff ESG trainings and activities.

Keywords: Environmental, Social, Governance, banking sector, sustainability, Zambia, ESG

1. Introduction

Environmental, Social, and Governance (ESG) practices have gained global recognition as essential components of sustainable development. ESG refers to the three central factors in measuring the sustainability and ethical impact of an investment in a company or business. As the world grapples with environmental challenges, social inequalities, and governance issues, the integration of ESG factors into business operations and investment decisions has become increasingly important.

Copyright © 2025 Author(s) retain the copyright of this article. This article is published under the terms of the Creative Commons Attribution Liscense 4.0.

Literature has shown a global trend in financial institutions integrating ESG considerations into their operations, promoting sustainable development and mitigating associated risks (Chen et al., 2023b). A good example is the adoption of the United Nations Principles for Responsible Investment (UNPRI) by financial institutions. This integration is driven by the understanding that ESG practices can lead to better risk management, improved long-term returns, and positive societal impact (European Commission, 2024).

In Zambia, like most developing African countries, the concept of ESG is relatively new. Its implementation still in the nascent stages. The Zambian financial sector, comprising banks, insurance companies, and other financial institutions, plays a crucial role in the country's economic development. However, the sector faces numerous challenges, including limited awareness and adoption of ESG practices (BoZ, 2024a). This is despite the growing evidence that ESG practices can enhance financial performance and contribute to sustainable development (Chen et al., 2023b; Tensie Whelan et al., 2021).

Recent reports indicate that while some Zambian financial institutions have started to recognize the importance of ESG, the level of awareness and implementation varies significantly. For instance, some banks have initiated green financing and corporate social responsibility (CSR) programs, yet a comprehensive approach to ESG integration is lacking (BIOFIN, 2024). This disparity is partly due to the absence of a coordinated framework and insufficient empirical evidence on the benefits of ESG practices in the local context (Jayne Mamatt, 2021; PricewaterhouseCoopers, 2022).

The lack of understanding and empirical evidence regarding ESG practices in Zambia's banking sector presents a significant research gap. This study addressed these gaps by evaluating the following three objectives:

To understand the level of ESG awareness and ESG considerations and practices among banks in Zambia's financial sector;

Assess the relationship between ESG awareness and practices implemented by banks in Zambia; and

To investigate the relationship between a bank's ESG practices and its financial standing.

This was done based on a theoretical framework comprising of three theories: The Diffusion of Innovation Theory; The Theory of Planned Behaviour Theory; and The Stakeholders Theory.

Diffusion of Innovation (DOI) Theory. This is a theory developed by E.M. Rogers in 1962. It basically explains how over time, a product or an idea gains momentum and spreads (diffuses) through a specific population or a social system. This diffusion results in people or institutions as a part of society adopting a new idea, behaviour or product (LaMorte, 2022a).

Theory of Planned Behavior (TPB). This theory looks at how an individual's attitude towards a product, idea or activity affects their intention to behave in a certain way. The key component to this model is behavioral intent, that is, behavioral intentions are influenced by the attitude about the likelihood that the behavior will have the expected outcome and the subjective evaluation of the risks and benefits of that outcome (LaMorte, 2022b; Thoradeniya et al., 2015).

The last theory was the stakeholder theory which is "a theory that (i) encourages organizations to acknowledge and consider their stakeholders, which exist internally or externally to the organization, (ii) promotes understanding and managing stakeholder needs, wants, and demands, and thus (iii) represents a holistic and responsible framework that goes beyond the focus of shareholders in decision-making processes, which, in turn, (iv) enables organizations to be strategic, maximize their value creation, and safeguard their long-term success and sustainability" (Mahajan et al., 2023, p.1).

This study when viewed conceptually presents as in figure 1 below:

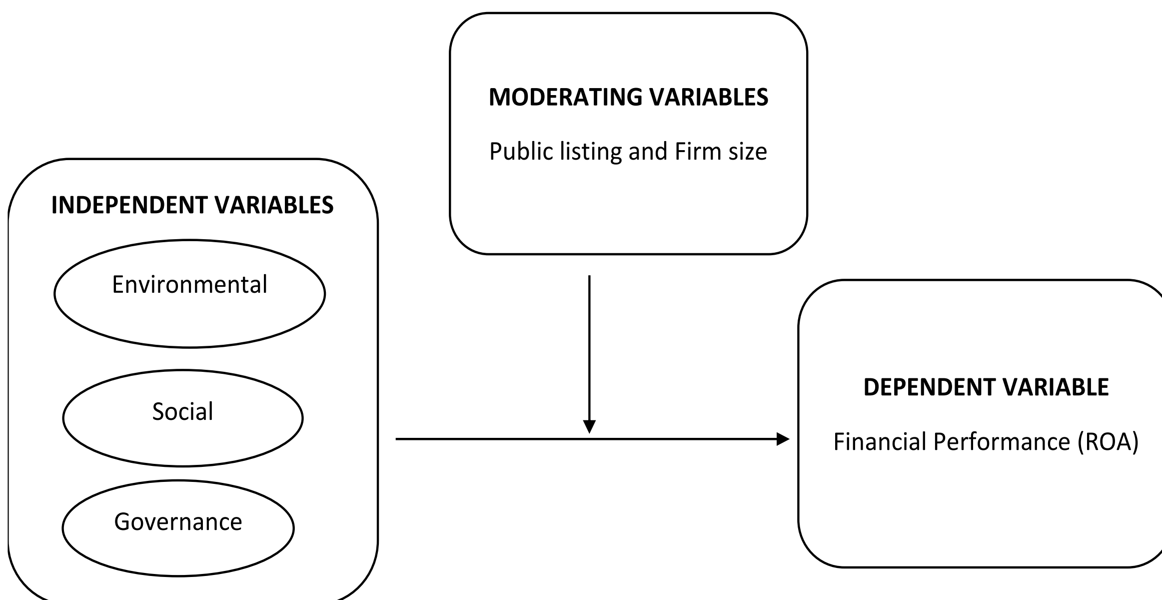

Figure 1: Conceptual framework

2. Literature Review

2.1 Introduction

Overview of ESG and Its Importance

ESG gained attention in the mid-2000s, after a study by the United Nations (UN) titled "Who Cares Wins," emphasizing the importance of ESG in financial and development sectors (Chen et al., 2023b; Kell, 2018). It is important to note that ESG is generally associated with corporate practices, however, there another branch of ESG referred to as sovereign ESG which focuses on government compliance (Kvam and Chesnutt, 2023). This paper focused on corporate ESG. In corporate ESG, companies use environmental, social, and governance practices to assess performance and investment opportunities, considering factors like supply chains, data disclosure, and incidents. ESG is not just an ethical issue; it has become crucial for financial institutions, influencing how they manage risks and make decisions, especially as global sustainability regulations like the Paris Agreement and the UN Sustainable Development Goals push for greater compliance. As sustainable finance has grown, ESG risks have emerged as a critical consideration in the financial sector. Financial institutions are now incorporating ESG factors into their risk management and business strategies to address these risks (Tashtamirov, 2023). This shift is necessary to ensure that sustainability becomes central to decision-making, influencing internal controls and business plans.

2.2 ESG Awareness

ESG (Environmental, Social, and Governance) refers to a framework for evaluating the sustainability and ethical impacts of a company's activities (Gillis and Mathias, 2024). It is composed of three main pillars: environmental, social, and governance. Understanding these individual components helps to grasp the broader concept of ESG.

The environmental aspect of ESG deals with a company's impact on the natural environment. This includes pollution, biodiversity impacts, carbon emissions, climate change, and the use of natural resources. Environmental compliance ensures that a company's activities benefit the environment, such as contributing to climate change mitigation, while minimizing any potential harm (Gratcheva et al., 2021; Kvam and Chesnutt, 2023). Companies that embrace environmental sustainability focus on reducing their environmental footprint through practices like reducing emissions or conserving water and energy.

The social aspect focuses on how a company impacts its surrounding communities, employees, and other stakeholders. This includes health and safety, diversity and inclusion, fair labor practices, and the supply chain. The goal is to protect and promote the well-being of both internal stakeholders (like employees, customers, and suppliers) and external ones (such as local communities, indigenous peoples, and vulnerable groups) affected by the company's activities (International Financial Corporation, 2021; Kvam and Chesnutt, 2023). Social responsibility also extends to a company's role in fostering positive relations and ensuring social equity.

Governance concerns how a company is run, focusing on the internal systems and practices that govern its operations. This includes aspects such as shareholder rights, board diversity, ethical conduct, transparency, risk management, and access to grievance mechanisms (World Bank, ECA 2023; International Financial Corporation, 2021). Governance also involves ensuring that environmental and social policies are adhered to and that the company's internal control systems are fair and accountable.

Global awareness of ESG is raising with institutions like the International Financial Corporation (IFC) playing a pivotal role in shaping global discussions on sustainability and having laid out key principles for the implementation of ESG practices (International Financial Corporation, 2021). As a result, global financial institutions, including the World Bank, Asian Development Bank, African Development Bank and others, are increasingly integrating ESG factors into their operations. This has led to the adoption of ESG principles across industries with variations across sectors, with finance being particularly driven by a mix of moral beliefs, public pressure, economic factors, and regulatory requirements (Fidelity International, 2024).

Investors are becoming more conscious of ESG practices, choosing to invest in companies that not only promise financial returns but also benefit society and align with ethical beliefs (Crespi and Migliavacca, 2020; Fidelity International, 2024). This trend is also driven by the increasing availability of information, which has made negative publicity about companies more widespread. Fidelity International (2024) further found that, companies are opting to integrate ESG into their operations to prevent backlash from negative news, such as labor strikes or environmental disasters.

The level of ESG awareness and implementation depends on several factors, such as the country's political environment, labor systems, and legal frameworks (Baldini et al., 2018). Research has shown that countries with strong governance systems promote higher levels of ESG engagement (Kuzey et al., 2023). In developed economies, ESG is more likely to be adopted due to stronger institutional structures, while emerging markets may not experience the same level of integration due to weaker governance frameworks (Mwanawasa, 2016a).

As this awareness spreads, financial institutions such as the World Bank, European Union, and IMF are requiring partial or complete ESG compliance from borrowers. The regulatory landscape in which financial institutions operate is also changing to include ESG considerations, further pushing businesses to adopt these practices (Kvam and Chesnutt, 2023). The internationalization of business, coupled with the ease of accessing information, has created an environment where businesses must comply with ESG standards to maintain their operations in specific markets or lose market share (Miras-

Rodríguez et al., 2019).
Literature shows that the strength of a country's legal system also plays a role in shaping ESG implementation and comliance. For example, countries with strong civil law systems often see better ESG practices, while common law systems in some developing countries may also encourage better corporate governance and sustainability practices (Mwanawasa, 2016; Miras-Rodriguez et al., 2019). Furthermore, factors such as firm size, board membership, and the role of institutional investors have been found to influence a company's ESG performance (Baldini et al., 2018; Lozano and Martínez-Ferrero, 2022).
The spread in ESG awareness can also be seen in the Zambia environment. ESG considerations have been growing, particularly in sectors like mining and construction, which have a longer history of corporate social responsibility (CSR) practices (Phiri and Mantzari, 2018; Zulu et al., 2022). Financial institutions are also starting to follow suit. Institutions like PriceWaterhouseCoopers (PwC), have started publishing annual reports on ESG practices, especially for companies listed on the Lusaka Securities Exchange (PwC Zambia, 2022, 2021). The Bank of Zambia (BoZ) in 2023 also introduced regulation called green loan guidelines to encourage ESG practices in the banking sector (Bank of Zambia, 2023).
Currently, there are efforts to develop a robust regulatory framework for ESG implementation in Zambia. A collaboration between financial sector regulators, including the BoZ and the Securities and Exchange Commission (SEC), aims to create a comprehensive ESG regulatory system (Qusum, 2024). Banks like ZANACO, ABSA, and FNB have made strides in mainstreaming ESG practices, with annual reports highlighting their ESG activities and challenges (ZANACO, 2023; FNB, 2023; MorningStar Sustainalytics, 2024).
Therefore, ESG practices are becoming more significant globally, driven by both regulatory pressures and increasing awareness among investors and stakeholders. The integration of ESG into business operations has become essential for ensuring long-term sustainability, ethical behavior, and societal well-being.

2.3 ESG Practices

Over the past decade, especially in developed countries, Environmental, Social and Governance (ESG) practices have gained traction in the financial sector as a strategic tool to improve reputations, attract clients, and enhance profitability. Financial institutions, particularly banks, are shifting from traditional credit risk management to sustainability-focused risk management (Arnone et al., 2024). Private equity firms, in particular, have been proactive in integrating ESG by creating frameworks and guidelines to assess risks and opportunities in their investments. These firms also cater to clients who value sustainable investments by offering more diversified options (Olteanu et al., 2023).
A study by Columbia University for the United Nations Development Fund (UNDP) highlighted that ESG implementation is more robust in developed countries (Boehmer, 2018a). Further evidence was found from the Czech Republic, Burianova & Paulik (2014) found that major banks report implementing Corporate Social Responsibility (CSR) initiatives in areas such as environmental protection, social responsibility, and ethical business practices. Green policy focused on reducing energy consumption, recycling, and using environmentally friendly products are being implemented. Ethical practices, such as promoting transparency, accountability, and fair treatment of customers, were also emphasized (Burianova & Paulik, 2014).
However, this is not the case with developing countries. Firstly, there is limited research on ESG practices in developing countries (Lozano & Martínez-Ferrero, 2022). Studies show that the pressure to adopt CSR and ESG practices is weaker in developing countries compared to developed ones (Miras-Rodríguez et al., 2019). Experts suggest that a robust country-level regulatory framework is crucial for encouraging ESG adoption in these countries (Crespi & Migliavacca, 2020; Lozano & Martínez-Ferrero, 2022). This challenge, presents an opportunity for developing countries to improve their ESG integration through stronger regulations while learning from developed countries.
Challenges faced by developing countries when it comes to ESG implementation including unclear regulatory requirements, lack of data, and uncertainty about the economic benefits of ESG integration (Arnone et al., 2024). The absence of common standards and difficulties in measuring social impact and long-term economic benefits further limit ESG adoption (Olteanu et al., 2023). Factors such as vague ESG criteria, weak confidence in ESG reporting, and market barriers have hindered ESG investments in developing countries. Other factors, such as data availability, the size of funds, and market health, also contribute to these challenges (Boehmer, 2018). However, as earlier indicated, lessons from developed countries, such as the creation of collective action plans and sector-wide collaborations, can guide developing nations in strengthening ESG practices (Arnone et al., 2024).
In Zambia, the Bank of Zambia's 2024-2027 strategic plan emphasizes integrating ESG principles within the financial sector. This includes developing a framework to promote compliance with ESG principles through supervisory and regulatory practices (BoZ, 2024). Collaborative efforts to strengthen ESG practices are also underway. The BIOFIN (UNDP Biodiversity Finance Initiative) Green Finance Mainstreaming Working Group, which includes the Bank of Zambia, Securities and Exchange Commission (SEC), and other key players, is actively promoting policies for sustainable growth (BIOFIN, 2024). Furthermore, the adoption of international standards, such as the ISSB's Sustainability Disclosure Standards and the Integrated Reporting Framework, will help integrate ESG into Zambia's financial institutions by 2025 (PwC Zambia, 2024).
Efforts towards sustainability are being seen the market with banks like the Zambia National Commercial Bank (ZANACO) integrating ESG into its operations through seven sustainability pillars to guide its strategy (ZANACO, 2023). The SEC has also contributed by issuing green bonds guidelines (SEC, 2020). Additionally, insurance companies in

Zambia are being encouraged to innovate with products that cover climate-related risks (PwC Zambia, 2024). According to PwC Zambia's 2022 Banking Survey, 90% of banks in Zambia reported incorporating ESG factors into their strategic and operational processes (PwC Zambia, 2024).

Despite this progress, barriers remain. Zambia's regulatory framework lacks clear guidelines for ESG implementation, which makes it difficult for companies to understand their obligations and the benefits of compliance (Mwanawasa, 2016a; PricewaterhouseCoopers, 2023). Another challenge is the absence of agreed-upon ESG definitions and measurement standards, which leads to inconsistent reporting and complicates comparisons between financial institutions (Boehmer, 2018). Additionally, there is a shortage of capacity, knowledge, and skills within institutions to implement and measure ESG practices, making it hard to report on ESG impacts effectively (PwC Zambia, 2024; ZANACO, 2023).

Furthermore, the quality and reliability of ESG data in Zambia is often subpar, and there is limited engagement and feedback from stakeholders, resulting in institutions working in silos (BIOFIN, 2024; PwC Zambia, 2024). These challenges must be addressed to further advance ESG implementation in Zambia's financial sector.

2.4 Relationship between ESG Awareness and Implementation

Stakeholder management has become crucial for businesses aiming to increase their value. Scholars highlight that businesses should consider not only shareholders but also employees, customers, suppliers, governments, and local communities (Carroll & Shabana, 2010; Freeman & Dmytriyev, 2017). Companies focusing on sustainability and eco-friendly practices are more likely to gain stakeholder trust, improve their reputation with investors, and achieve long-term financial success (Oyedeko et al., 2024).

As ESG (Environmental, Social, and Governance) practices grow in importance, several studies have examined how ESG information affects market value and financial performance. While some studies suggest that ESG positively impacts business value, others show no effect or even a negative one (Chen et al., 2023). A study in Sri Lanka found that managers' attitudes toward Sustainable Reporting (SR), their belief in stakeholder pressure, and their control over SR behaviour influenced their engagement in corporate SR (Thoradeniya et al., 2015). Similarly, research in Bangladesh showed that investors view ESG issues as influential in investment decisions, especially governance, followed by social and environmental factors (Sultana & Zainal, 2017).

ESG practices are influenced not only by broader factors but also by local or contextual ones. Funding requirements can encourage or discourage ESG implementation (Kvam & Chesnutt, 2023). Investor opportunities also shape a company's ESG practices (Phiri & Mantzari, 2018), as companies adjust to attract capital. Managers' attitudes are key as well; if they are supportive of ESG, the company is more likely to implement these practices (Thoradeniya et al., 2015). Additionally, cultural and religious influences, such as Buddhism in Sri Lanka, can impact managers' approach to environmental conservation (Thoradeniya et al., 2015; Bani-Khalid & Kouhy, 2017). In some communities, ESG is viewed as a way to benefit rather than just avoid harm (Kvam & Chesnutt, 2023).

In Zambia, like most developing countries, both ESG awareness and implementation in the banking sector are still taking root. Few examples such as the ZANACO's sustainability strategy and integrated reporting (Zanaco, 2023), the SEC's green bond guidelines (SEC, 2020), and Absa's ESG efforts indicate growing awareness (Absa, 2023). The government's push for sustainability is also evident through the formation of the Ministry of Green Economy and Environment and the review of the Environmental Management Act.

2.5 Impact of ESG Practices on Financial Performance

The link between ESG practices and financial performance has been a subject of extensive research. In Africa, a study of five countries (Egypt, Nigeria, South Africa, Algeria, and Ethiopia) found a bi-directional relationship between ESG risks and stock market performance, suggesting that well-managed ESG risks can lead to improved financial outcomes (Oyedeko et al., 2024). A global study by Chen et al. (2023) also found a positive relationship between ESG performance and corporate financial performance, particularly for large companies. Similarly, Rooh et al. (2023) discovered that investors on the Pakistan Stock Exchange are influenced by ESG factors, using models like the Theory of Planned Behavior to assess these impacts.

In South Africa, investment in ESG initiatives has been shown to improve both accounting and market-based financial performance, with environmental factors having the most significant impact (Chininga et al., 2024). However, in Zambia, research on the relationship between ESG and financial performance is limited. A study by Chinyonga (2024) on companies listed on the Lusaka Securities Exchange found that environmental and social disclosures positively influence stakeholders' trust and, in turn, company performance. Meanwhile, Zulu et al. (2022) found that while construction professionals in Zambia were more aware of environmental sustainability, their practices focused more on social and economic sustainability.

Challenges exist in measuring the impact of ESG practices on financial performance, especially in developing countries where data can be fragmented or unavailable (Lozano and Martínez-Ferrero, 2022; Miras-Rodríguez et al., 2019). Multiple measu rement frameworks for ESG, combined with the limited focus on the social aspect of ESG, make it difficult for companies to assess their ESG performance accurately (PwC Zambia, 2024; Kvam and Chesnutt, 2023). Self-reported data further complicates the issue, as companies may not always be transparent in their sustainability disclosures (Rooh et al., 2023).

Another challenge is "greenwashing," where companies falsely claim to support environmental initiatives (United Nations,

2024), as well as "yellow washing" for social sustainability. This dishonest reporting undermines the credibility of ESG efforts and highlights the need for stricter regulation in ESG reporting, particularly in developing countries like Zambia, where formal regulations are less common (Sonko and Sonko, 2023).
The lack of standardization in measuring ESG progress remains a key issue. While institutions have developed various indicators, a global consensus on the best practices for assessing ESG performance has not been achieved (Kell, 2023; Kuzey et al., 2023; Kvam and Chesnutt, 2023). This lack of consistency in measurement makes it challenging for companies to assess their ESG impact accurately, hindering broader adoption of ESG practices.

2.6 Gaps in Literature

This paper explores research gap identification using Miles' theoretical framework, which identifies gaps in evidence, knowledge, methodology, empirical studies, theory, and populations (Miles, 2017). The paper addressed the knowledge gap in ESG awareness within Zambia's banking sector and contributes to literature on ESG practices in developing countries. The research examined the relationship between banks' awareness of ESG and their ESG practices, as well as assess the impact of ESG performance on financial outcomes. Ultimately, the findings will enrich knowledge of Zambia's financial sector and ESG implementation in similar contexts globally.

3 Research Methodology

3.1 Introduction

The methodology in this paper is structured using Saunders' Research Onion framework to ensure a comprehensive and systematic approach (Seuring et al., 2021). The study used the Positivism philosophy, which is based on the premise that knowledge is revealed from a neutral and measurable or quantifiable observation of an activity, action or reaction (Park et al., 2020).

3.2 Sampling Procedure

Simple random sampling was used as the sampling method for this study with a survey as a research strategy (Noor et al., 2022). This method guaranted that each of the 15 banks (BoZ, 2024b) in Zambia have an equal chance of being selected. The study sample size was four (4) banks randomly drawn from the population of 15 banks registered with the Bank of Zambia.
Data collection instruments were structured questionnaires allowing for standardized data collection and facilitating statistical analysis. The questionnaire included closed and open-ended questions designed to measure ESG awareness, practices, and financial performance.

3.3 Data analysis

Data was analysed using descriptive statistics and frequency distributions, correlation analysis and regression analysis through the following variables and model:

Model: $ROA = \beta 0 + \beta 1PL + \beta 2FS + \beta 3ENV + \beta 4SOC + \beta 5GOV + \varepsilon$

Where: ROA= Return on Assets; PL=Public listing; FS=Firm Size; ENV=Environmental performance; SOC= Social Performance; and GOV=Governance Performance.
The data in this research was analysed using the statistical package SPSS, 2020.

3.4 Research Approach

The selected research approach was the deductive approach. This approach tests a theory for its implications with data, that is, the approach moves from a general level to a specific one. It tends to be associated with scientific investigation (Sheppard, 2020). It was adopted as it begins with existing theories and propositions about ESG awareness and practices and tests these through empirical observation.

3.5 Time Horizon

The time-horizon to be used in this paper is the cross-sectional. It is the best option for this research as it involves collecting data at a single point in time. This approach is suitable for assessing the current state of banks ESG awareness and practices, and the impact of these practices on financial performance, providing a snapshot of the banks ESG status.

4 Data Presentation, Analysis and Discussion of Findings

The data was analysed based on the three objectives: The level of ESG awareness among banks in Zambia's financial sector and ESG considerations and practices among banks operating in Zambia's financial sector; The relationship between ESG awareness and the implementation of ESG practices by Banks in Zambia; and the impact of ESG practices on the financial performance of banks within Zambia's financial sector.

Objective 1: The level of ESG awareness and ESG considerations and practices among banks operating in Zambia's financial sector

Table 1: Descriptive statistics

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
ESG Awareness	4	1	1	1.00	.000	.000
Familiarity with ESG	4	3	4	3.75	.250	.500
Commitment to ESG awareness	4	1	1	1.00	.000	.000
Rate commitment to ESG	4	4	5	4.75	.250	.500
Commitment to raising environmental pillar	4	3	5	4.50	.500	1.000
Commitment to raising social pillar	4	5	5	5.00	.000	.000
Commitment to governance pillar	4	5	5	5.00	.000	.000
Valid N (listwise)	4					

The results showed that generally, banks are familiar with the concept of ESG (all banks reported an awareness of ESG as a concept). The analysis showed a mean of 3.75 indicating an awareness that is 0.25 from the highest rating of awareness. Individuals responding to the questionnaire were also aware and trained in ESG. These findings are in line with the growing trend of familiarity with the concept of ESG among financial institutions as indicated by literature conducted in Zambia and the rest of the world (Arnone et al., 2024; Choongo et al., 2017; Olteanu (Burcă) et al., 2023). The banks indicated that ESG was becoming more integral to bank operations in preparation for the regulation that was likely to take effect very soon, these sentiments were echoed by the Bank of Zambia and the BIOFIN (BIOFIN, 2024; BoZ, 2024a). The awareness of ESG driven in anticipation of regulatory and governance requirements is in agreement with findings in a global context (Kuzey et al., 2023; Rooh et al., 2023). Kuzey et al. (2023) found that from 41 countries and Rooh et al. (2023) from a study conducted in Pakistan found that strong governance and regulatory system encourage ESG awareness among financial institutions.

Furthermore, the results are in agreement with the Diffusion of Innovation theory, as the results indicate a spread of ESG as a concept through the banking system. This finding is similar to the Theory of Planned Behaviour (TPB) which showed that the positive attitude of individuals managing ESG in these banks would lead to an uptake of ESG for the banks.
It was also noted that those banks that are publicly listed (3 out of 4), larger, in terms of firm size and belonging to a global group tend to be more aware and committed to promoting ESG and integrating it into bank operations as stock exchanges, shareholders, stakeholders and funders required that sustainability be part of bank reporting requirements unlike the smaller, unlisted and privately owned bank. The privately owned bank looked at ESG considerations while weighing costs and benefits of implementing these practices. This is in agreement with literature (Oyedeko et al., 2024; Rooh et al., 2023; T. Whelan et al., 2021) which showed that investors, listed entities, and larger firms tend to be more aware of ESG considerations.

Familiarity with ESG has actually taken a step further and has led to actual commitment to ESG seen through three of the banks using Integrated Financial Reporting Standards (IFRS 1and 2) and one starting next year (2025) to outline achieved results on sustainability (ESG).
It is important to note, that none of the banks despite a strong awareness and commitment to ESG used the same definition of what each of the pillars and ESG stand for. However, definitions of ESG pillars revolved around integrating ESG activities into bank operations with emphasis on integrating environmental activities and green buildings on the environmental pillar and community engagements and youth programmes on the social pillar. Governance for all the banks focused on bank controls, processes, procedures and frameworks that govern bank operations, manage risk and comply with regulations.

The lack of consensus on definitions and ESG metrics as seen from the results leads to challenges in comparisons of results. This challenge was indicated as one of the constraints to raising awareness on ESG in Zambia by various authors (BIOFIN, 2024; Boehmer, 2018b; BoZ, 2024a). Kvam and Chesnutt (2023) also agreed to this challenge in their paper. There is need for agreed definitions and metrics to be used to increase awareness and draw comparisons.
ESG considerations and practices among banks operating in Zambia's financial sector
All banks reported to be implementing various forms of ESG practices. The most common practices are as below:

Table 2: Common Environmental, Social and Governance Practices found among banks.

Environmental Practices	Social Practices	Governance practices
Alternative energy Smart buildings Alternative energy Tree planting	Financial literacy week Staff trainings and capacity building Community engagements/ youth and women programmes Grievance mechanisms/Complaints Management Systems.	Governance systems through documents Standardized accounting reporting frameworks

Other interesting ESG practices included reduction in carbon emissions and reduction in funding for financed emissions towards net zero carbon emissions, support towards preservations of land and biodiversity, recycling of plastic and food waste and conducting environmental and social risk assessments for bank clients before accessing financing. Social considerations that were not common include banks promoting labour unions, youth education programmes and support for inclusion and diversity.

Due to the lack of census on how to define ESG and individual pillars, the results showed a varied array of ESG practices among the sampled banks. These activities were subjective and done based on different influences.
One of most prevalent ESG practices was integrating ESG into bank risk management systems. This finding was in line with what Arnone (Burcă) et al. (2024) and Olteanu et al. (2023) found among banks on a global scale. All the banks interviewed agreed that ESG was either completely integrated or was being integrated into their risk management systems. Further, specific staff have been trained to manage ESG with board members having specific roles embedded or preparing to have them, to oversee ESG implementation into bank operations, procedures and systems, all in line with what literature identified as some of the key milestones in ensuring ESG considerations are integrated into the financial sector (Boehmer, 2018b; Lozano and Martínez-Ferrero, 2022).

All the banks are implementing some form of community based engagements or stakeholder engagement that focuses on interactions on community participation and raising of awareness on financial literacy, climate change, community volunteerism by bank staff and programmes targeting girls, women and youth. Some banks have recycling programmes, are implementing targets that will reduce their funding of gas and oil clients to contribute to achieving the Net Zero target and integrating ESG screening into their client selection process to ensure that their clients businesses are not working against ESG principles. Similar findings were recorded in the Czech Republic with some banks introducing green policy's and CSRs targeting communities (Burianova and Paulik, 2014). As Kvam and Chesnutt (2023) found some banks are actually implementing ESG practices and considerations due to funding requirements, regulatory pressures (Bank of Zambia, 2023; Mwanawasa, 2016b; Phiri and Mantzari, 2018) and shareholders.

The results showed that all the banks to varied degrees have integrated ESG goals and targets into their corporate strategy and disclose this information to shareholders and the stakeholders annually and quarterly. Only one bank had a dedicated environmental and social management system (ESMS) and ESG policy that was dedicated to ESG implementation in Zambia. Two other banks have sustainability policies and staff who oversee such activities. All of these and other ESG policies are publicly disclosed. Literature has shown and in agreement with this study, that stakeholder engagement and public disclosures help to ingrain ESG into operations (Buallay, 2018; International Financial Corporation, 2021).

It was noted that investors/ shareholders and lenders have had changing expectations in ESG. Shareholders and lenders are now starting to require banks and their operations to mainstream ESG considerations into their operations similar to literature in Zambia on sustainability (Chinyonga, 2024). This is in agreement with the stakeholder theory and the Diffusion of Innovation theory. This is line with Bani-Khalid and Khouhy (2017), Miras-Rodriguez et al. (2019) found that stakeholder and investor culture will drive ESG and sustainability changes in financial operations. Kvam and Chesnutt (2023) and Phiri and Mantzari (2018) found similar drivers in ESG and CSR practices implementation.
It is important to highlight that despite this awareness and practices, ESG implementation still faces a number of challenges. Firstly, there is a lack of commitment and buy-in towards ESG implementation across bank operational levels. Parts of the bans operatins might appreciate the concept while others still consider it a sunk cost.

Another challenge is that clients expect to receive lower interest rates on green loans because of the nature of the loans. The banks that have endeavoured to pilot green loans reported this as one of the challenges of the loans.
Another challenge is that financiers of banks have set-up stringent ESG conditions that banks have to meet to access financing. This make it very difficult for banks who are just beginning to integrate ESG into their operations to meet the requirements. It also makes it very difficult to provide these resources as green loans at a competitive price.
Further, it was reported that communities that have received ESG activities such as tree planting and volunteerism have

little appreciation for ESG considerations and practices as they have struggled to sustain some of these initiatives in communities. There is little buy-in and ownership of community based ESG considerations from communities.

Objective 2: The relationship between ESG awareness and the implementation of ESG practices by Banks in Zambia

Table 3: Correlations
Correlations

			Level of ESG awareness influencing ESG implementation
Spearman's rho	ESG awareness impacting ESG implementation and practices	Correlation Coefficient	1.000
		Sig. (2-tailed)	.
		N	4
	Level of ESG awareness influencing ESG implementation	Correlation Coefficient	1.000
		Sig. (2-tailed)	
		N	4

Using Spearman's rank correlation, the data showed a coefficient of 1 indicating a positive relationship between a banks awareness and implementation of ESG practices. That is to say, if a bank is aware of ESG practices, it has a higher likelihood of implementing ESG activities, than if it is unaware. Literature has shown that the more stakeholders, shareholders and institutions are aware of ESG and its implications the more they tend to require that financial institutions implement ESG considerations. This is in line with what authors reviewed in this paper concluded (Freeman and Dmytriyev, 2017; Ndemena, 2024; Thoradeniya et al., 2015).
Unlike what Sultana and Zainal (2017) found in their study, that is, in order of importance, governance pillar is the most important followed by, social and environmental pillars. This study found that two out of three banks rated the social pillar as the most import while the other two rated governance and the environmental pillars. This could be due to the fact that in order to implement the other two pillars (governance and environmental), stakeholders and shareholders have to be heavily involved.
Further, the nature of sustainability among the banking sector in Zambia has for a long time been aligned towards Corporate Social responsibility, which is heavily tilted towards community engagements (Mwanawasa, 2016b; Phiri and Mantzari, 2018).Further probing also showed that despite efforts targeting more socially aligned considerations, all the banks in their documentation and perception consider all pillars equally. They recognized that all the pillars, i.e. environmental, social and governance pillars, are important for sustainability.

Objective 3: The impact of ESG practices on the financial performance of banks within Zambia's financial sector.
According to the data collected, the most common financial metrics used to measure financial performance include Return on Equity (RoE), Return on Assets (RoA), Profits, Revenue, Net Income and Cost to Income Ratio. The study used RoA from the banks, collected for five years consecutively from 2019 to 2023. The bank's annual returns on assets (RoA) from 2019 to 2023 for all four banks is as highlighted in the figure below.

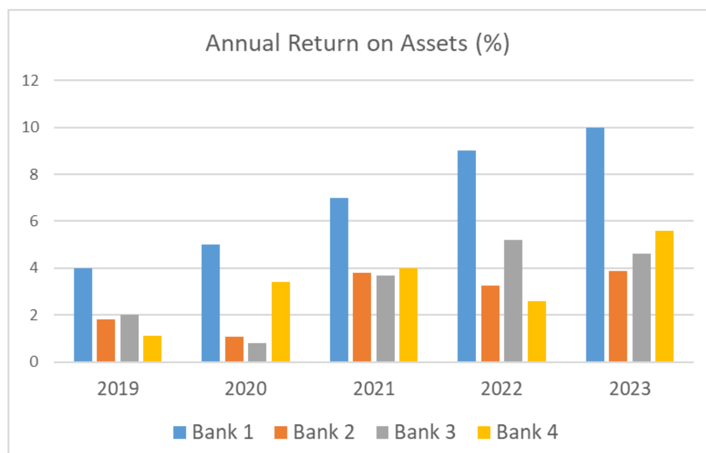

Figure 2: Annual returns of the Four Bank

Generally speaking, there was an upward trend in the ROA of the banks during the period data was collected in. However, despite this, the banks have yet to establish systematized ways of measuring ESG, none of the banks have been tracking

the impact of ESG on their financial statements. This was due to the perception that ESG efforts accrue intangible benefits. Further, ESG is a new strategic area that banks recently started looking at and integrating, thus, the limited data on its implementation and tracking. However, they all subjectively stated that ESG was positively impacting ROA.
When asked to subjectively rate the impact of each ESG pillar on their financial performance, two banks rated environmental as very high (rating of 5), moderate (rating of 3) and high (rating of 4). In terms of the social pillar, three rated it as very high and one as high. The governance pillar recorded similar results as the social pillar.

When a regression analysis was done to assess the relationship between ROA, public listing (PL), firm size (FS), environmental pillar (ENV), social pillar (SOC) and governance pillar (GOV), the analysis indicated insufficient data to compute a regression analysis given the period of time to which ESG considerations have been considered in banks. In order t get reliable data, ESG must be given time to mature as a practice in the financial sector. Data on ESG implementation would need to be collected over a long period of time to successfully conduct the regression. Unfortunately, as this is a new strategic venture that banks are venturing it, more time must be given to collect sufficient data.

5 Conclusions and Recommendations

Drawing from the findings, it can be concluded that ESG firstly is part of Zambia's banking sector. The findings under objective one, ascertained and provided information on the level of ESG in Zambia's banking certain, highlighting the fact that despite, ESG still emerging, it is an important topic of conversation and strategic decision that banks are getting into and training staff on to prepare them for future regulation and access to markets and opportunities.
This study also highlighted that despite the lack of consensus on what ESG is and what ESG principles banks should consider, each bank has practices and considerations that are part of bank policies, systems and procedures. Banks are actively integrating ESG principles into their operations. The study highlighted some common practices such as board ESG supervision, tree planting initiatives, waste management ventures, ESG public disclosures, community engagements and volunteerism, climate smart building, sustainability policies and water reuse and management.
Further, we can conclude that the ESG awareness does lead to better ESG implementation amongst Zambian banks to answer the second objective. Banks will implement ESG initiatives the more they are aware of the concept and the more various stakeholders including shareholders require them to integrate it into their operations. This relationship between awareness and implementation was found to be positive.
Unfortunately, due to the infancy of ESG practices and implementation in the banking sector in Zambia, this study was unable to quantitatively ascertain if ESG practices affect the financial standing of a bank. ESG implementation is still new and still being integrated into bank operations, therefore, it cannot as of yet be ascertained if the impact on finances is neutral, positive or negative. Qualitatively, the banks stated that ESG implementation positively affected financial performance, however, the study was unable to quantitatively prove this assertion. Therefore, this study was unable to conclusively satisfy this objective.

This study was without its limitations. Study limitations include:

- Some bank policies were considered confidential and thus, were inaccessible during this study.
- Some privately run banks were unable to assign specific people to support this exercise as they were still integrating ESG practices.
- Time period of ESG implementation among banks in Zambia is small given the infancy of the concept in the country

Conflict of Interest

The authors declare that they have no conflicting interests

Funding

This research did not receive any specific grant from finding agencies in the public, commercial, or not-for-profit sectors.

Ethical considerations

The article followed all ethical standards appropriate for this kind of research.

References

Absa, 2023. Environmental, Social and Governance Report (Analysis Report No. 1) (Analysis Report No. 1). Absa Group Limited, South Africa.

Arnone, M., Laureti, L., Costantiello, A., Anobile, F., Angelo, L., 2024. The Access to Credit in the Context of the ESG Framework at Global Level.

Bank of Zambia, 2023. Circular No.33 of 2023": Gazetting of the Green Loans.

BIOFIN, 2024. BIOFIN Zambia is driving the transformation of green finance with the launch of three key financial solutions [WWW Document]. BIOFIN. URL https://www.biofin.org/news-and-media/biofin-zambia-driving-transformation-green-finance-launch-three-key-financial (accessed 9.12.24).

Boehmer, H.-M., 2018a. ESG Investing: How to increase ESG investing in developing countries | Columbia SIPA [WWW Document]. Columbia SIPA. URL https://www.sipa.columbia.edu/esg-investing-how-increase-esg-investing-developing-countries (accessed 2.22.25).

Boehmer, H.-M., 2018b. ESG Investing: How to increase ESG investing in developing countries [WWW Document]. Columbia SIPA. URL https://www.sipa.columbia.edu/esg-investing-how-increase-esg-investing-developing-countries (accessed 9.12.24).

BoZ, 2024a. 2024-2027 Bank of Zambia Strategic Plan: Promoting Inclusive and Sustainable Development in a Digitalised World (Policy Document No. 1), Strategic Plans. Bank of Zambia, Lusaka, Zambia.

BoZ, 2024b. Registered Commercial Banks [WWW Document]. Bank Zamb. URL https://www.boz.zm/registered-commercial-banks.htm (accessed 9.20.24).

Buallay, A., 2018. Is sustainability reporting (ESG) associated with performance? Evidence from the European banking sector. Manag. Environ. Qual. Int. J. 30, 98–115. https://doi.org/10.1108/MEQ-12-2017-0149

Burianova, L., Paulik, J., 2014. Corporate Social Responsibility in Commercial Banking - A Case Study from the Czech Republic. J. Compet. 6, 50–70. https://doi.org/10.7441/joc.2014.01.04

Chen, S., Song, Y., Gao, P., 2023a. Environmental, social, and governance (ESG) performance and financial outcomes: Analyzing the impact of ESG on financial performance. J. Environ. Manage. 345, 118829. https://doi.org/10.1016/j.jenvman.2023.118829

Chen, S., Song, Y., Gao, P., 2023b. Environmental, social, and governance (ESG) performance and financial outcomes: Analyzing the impact of ESG on financial performance. J. Environ. Manage. 345, 118829. https://doi.org/10.1016/j.jenvman.2023.118829

Chinyonga, H., 2024. The impact of sustainability accounting and reporti firm value: a case study of listed company's on Lusaka securities exchange (LUSE). The University of Zambia.

Choongo, P., van Burg, J.C., Paas, L.J., Masurel, E., Lungu, J., 2017. Corporate social responsibility motivations in Zambian SMEs. Int. Rev. Entrep. 15, 29–62.

European Commission, 2024. Overview of sustainable finance [WWW Document]. Eur. Comm. URL https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en (accessed 2.24.25).

Freeman, R.E., Dmytriyev, S., 2017. Corporate Social Responsibility and Stakeholder Theory: Learning From Each Other. Symphonya Emerg. Issues Manag. 7–15. https://doi.org/10.4468/2017.1.02freeman.dmytriyev

Gillis, A. s., Mathias, S., 2024. What is environmental, social and governance (ESG). What It. URL https://www.techtarget.com/whatis/definition/environmental-social-and-governance-ESG (accessed 3.11.23).

International Financial Corporation, 2021. IFC ESG Guidebook [WWW Document]. IFC. URL https://www.ifc.org/en/types/insights-reports/2021/ifc-esg-guidebook (accessed 8.21.23).

Jayne Mamatt, 2021. ESG strategies unlock value and build trust in Africa [WWW Document]. PwC. URL https://www.pwc.com/ke/en/press-room/esg-strategies-unlock-value-and-build-trust-in-africa.html (accessed 3.25.24).

Kell, G., 2018. The Remarkable Rise Of ESG [WWW Document]. Forbes. URL https://www.forbes.com/sites/georgkell/2018/07/11/the-remarkable-rise-of-esg/ (accessed 2.25.25).

Kuzey, C., Al-Shaer, H., Karaman, A.S., Uyar, A., 2023. Public governance, corporate governance and excessive ESG. Corp. Gov. Int. J. Bus. Soc. ahead-of-print. https://doi.org/10.1108/CG-01-2023-0028

Kvam, R., Chesnutt, C., 2023. Unpacking the 'S'in Environment, Social and Governance (ESG): Potential for SSI engagement (Research Report No. 1). World Bank, Washington.

LaMorte, W.W., 2022a. Diffusion of Innovation Theory [WWW Document]. Boston Univ. Sch. Public Health. URL https://sphweb.bumc.bu.edu/otlt/mph-modules/sb/behavioralchangetheories/behavioralchangetheories4.html (accessed 9.13.24).

LaMorte, W.W., 2022b. The Theory of Planned Behavior [WWW Document]. Boston Univ. Sch. Public Health. URL https://sphweb.bumc.bu.edu/otlt/mph-

modules/sb/behavioralchangetheories/BehavioralChangeTheories3.html (accessed 9.13.24).

Lozano, M.B., Martínez-Ferrero, J., 2022. Do emerging and developed countries differ in terms of sustainable performance? Analysis of board, ownership and country-level factors. Res. Int. Bus. Finance 62, 101688. https://doi.org/10.1016/j.ribaf.2022.101688

Mahajan, R., Lim, W.M., Sareen, M., Kumar, S., Panwar, R., 2023. Stakeholder theory. J. Bus. Res. 166, 114104. https://doi.org/10.1016/j.jbusres.2023.114104

Mwanawasa, C., 2016a. A case analysis of the viability of the current regulation and enforcement mechanisms of corporate governance in Zambia. Univ. Cape Town 1, 27.

Mwanawasa, C., 2016b. A case analysis of the viability of the current regulation and enforcement mechanisms of corporate governance in Zambia.

Ndemena, P., 2024. The effect of Corporate Social Responsibility disclosure on Corporate Performance with respect to Mining Companies in Zambia. https://doi.org/10.21203/rs.3.rs-4420802/v1

Noor, S., Tajik, O., Golzar, J., 2022. Simple Random Sampling 1, 78–82. https://doi.org/10.22034/ijels.2022.162982

Olteanu (Burcă), A.-L., Ionascu, A.E., Zaharia, R.M., 2023. ESG Reporting Standards in The Banking Sector: A Global Analysis. Ovidius Univ. Ann. Econ. Sci. Ser. XXIII, 1032–1039.

Oyedeko, Y.O., Owoniya, B.O., Ali-momoh, B.O., 2024. Environmental, Social, Governance Risks and Stock Market Performance in Africa. J. Univ. Shanghai Sci. Technol. URL https://jusst.org/environmental-social-governance-risks-and-stock-market-performance-in-africa/ (accessed 9.13.24).

Park, Y.S., Konge, L., Artino, A.R.J., 2020. The Positivism Paradigm of Research. Acad. Med. 95, 690. https://doi.org/10.1097/ACM.0000000000003093

Phiri, O., Mantzari, E., 2018. CSR Disclosure Practices in the Zambia Mining Industry, in: Gal, G., Akisik, O., Wooldridge, W. (Eds.), Sustainability and Social Responsibility: Regulation and Reporting. Springer, Singapore, pp. 471–504. https://doi.org/10.1007/978-981-10-4502-8_20

PricewaterhouseCoopers, 2023. Listed Companies Analysis Report 2022/23 [WWW Document]. PwC. URL https://www.pwc.com/zm/en/publications/listed-companies-analysis-report.html (accessed 2.25.25).

PricewaterhouseCoopers, 2022. ESG in financial sector | PwC Slovakia [WWW Document]. PwC. URL https://www.pwc.com/sk/en/environmental-social-and-corporate-governance-esg/esg-in-financial-sector.html (accessed 3.22.24).

Rooh, S., El-Gohary, H., Khan, I., Alam, S., Shah, S.M.A., 2023. An Attempt to Understand Stock Market Investors' Behaviour: The Case of Environmental, Social, and Governance (ESG) Forces in the Pakistani Stock Market. J. Risk Financ. Manag. 16, 500. https://doi.org/10.3390/jrfm16120500

Seuring, S., Stella, T., Stella, M., 2021. Developing and Publishing Strong Empirical Research in Sustainability Management—Addressing the Intersection of Theory, Method, and Empirical Field. ResearchGate 1. https://doi.org/10.3389/frsus.2020.617870

Sheppard, V., 2020. 1.7 Deductive Approaches to Research.

Tashtamirov, M., 2023. The place of sustainable development in ESG risks formation in banking sector. E3S Web Conf. 371, 03051. https://doi.org/10.1051/e3sconf/202337103051

Thoradeniya, P., Lee, J., Tan, R., Ferreira, A., 2015. Sustainability reporting and the theory of planned behaviour. Account. Audit. Account. J. 28, 1099–1137. https://doi.org/10.1108/AAAJ-08-2013-1449

Whelan, Tensie, Atz, U., Clark, C., 2021. ESG AND FINANCIAL PERFORMANCE: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015 – 2020.

Whelan, T., Atz, U., Holt, T.V., Clark, C.C., Salazar, P., Liu, Z., Bruno, C., 2021. ESG AND FINANCIAL PERFORMANCE: Uncovering the Relationship by Aggregating Evidence from 1,000 Plus Studies Published between 2015 – 2020.

Zanaco, 2023. Corporate Social Responsibility – Zambia National Commercial Bank. CSR. URL https://www.zanaco.co.zm/corporate-social-responsibility/ (accessed 2.26.25).