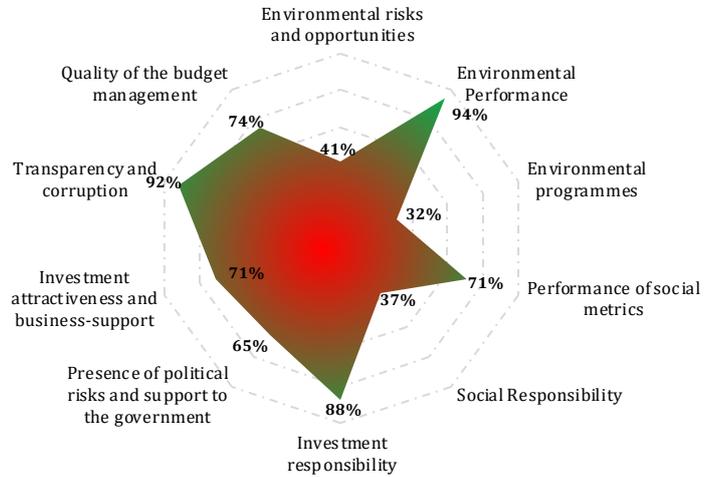


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Risk map



Ratings

Environmental	BBB[e]
Social	BBB[s]
Governance	AA[g]
ESG	BBB[esg]

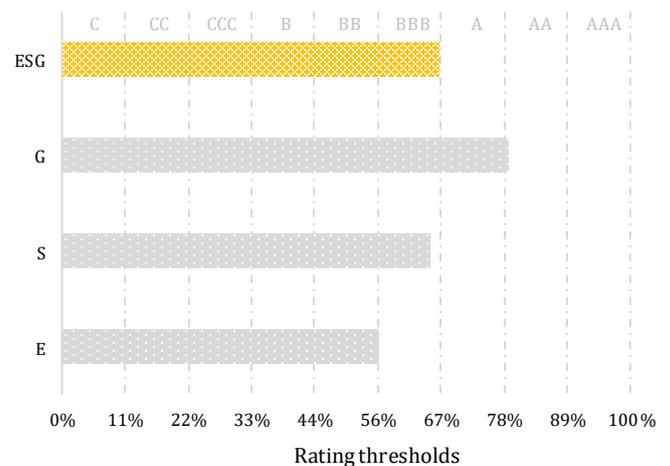
Summary

Rating-Agentur Expert RA GmbH (RAEX-Europe) confirmed ESG rating of Lipetsk region at BBB[esg], which means that the management of ESG related risks and opportunities is of moderately high level. The ratings of each section are as follows: BBB[e] environmental rating, BBB[s] social rating and AA[g] governance rating. The environmental rating exposed to industrial environmental risks due to the presence of large industrial enterprises operating in the region; however, there is a positive dynamics of a number of indicators due to the measures taken by the authorities and local businesses. Favorable health and safety indicators, low poverty rates, and the availability of social investment programs support the social ranking. The quality of regional governance is supported by the stability and transparency of the authorities, compliance and improvement of anti-corruption procedures and measures to support business, the development of investment infrastructure and the acceptable quality of public finance management. At the same time, the Agency considers that the current sanctions and new sanctions risks of Russia in the medium term may negatively affect the investment climate of the region, worsen the well-being of the population and the financial situation of businesses. These factors in the long-term perspective can affect both the state of regional finances and other components of the ESG rating.

ESG scorecard

Section	Sub-section	Weight	Score
Environment	Environmental risks and opportunities	11,1%	41%
	Environmental programmes	11,1%	94%
	Environmental performance	11,1%	32%
Social	Performance of social metrics	11,1%	71%
	Social responsibility	11,1%	37%
	Investment responsibility	11,1%	88%
Governance	Presence of political risks and support to the government	8,3%	65%
	Investment attractiveness and business-support	8,3%	71%
	Transparency and corruption	8,3%	92%
	Quality of the budget management	8,3%	74%

ESG score and rating per section



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Environment

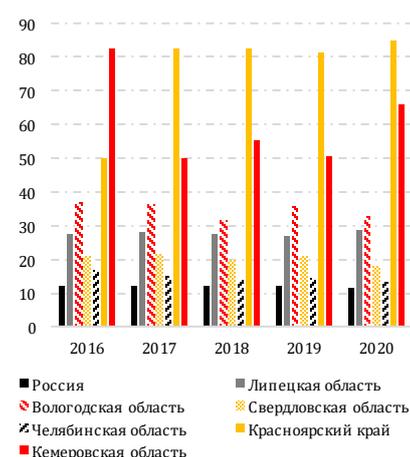
Sub-factor	Score
Environmental risks	41%
Environmental opportunities	41%
Environmental policy implementation and transparency	94%
Budget expenditure and efficiency	32%

Graph 1: Industrial air emission metrics of Lipetsk region



Источник: расчеты RAEX-Еurore на основе данных Росстата

Graph 2: Per capita emission of pollutants to the atmosphere from stationary sources, th tons per 100 thousand people



Источник: расчеты RAEX-Еurore на основе данных Росстата

High exposure to environmental risks persists, although there is a positive trend in a number of indicators. The Lipetsk region is largely exposed to various environmental risks associated with the activities of industrial enterprises. The key risks are air and water pollution as well as waste generation. Total air pollutant emissions from stationary sources in the region in 2019 reached a historical low (310 thousand tons), but in 2020 increased to 322 thousand tons (see Graph 1). Per capita emissions also rose to 28,6 tons per 100,000 people in 2020, higher than the Russian average but significantly lower than some other industrial regions (see Graph 2). This key risk is in the focus of attention of regional authorities and business.

One of the largest industrial facilities in the region, Novolipetsk Steel (NLMK Group), is implementing a long-term environmental program, which has resulted in a decrease in atmospheric emissions per tone of steel (see Graph 3). NLMK Group, the Lipetsk Region Administration, Rosprirodnadzor, and the Ministry of Natural Resources and Environment of the Russian Federation signed an agreement to reduce total air and water pollution in the region. Active actions is evidenced by year-on-year growth in the share of captured and detoxified pollutants in total emissions from stationary sources, which in 2020 was 83,5% compared to the national average of 72,2% (see Chart 4).

With regard to water pollution and production waste, we can observe a high level of management of these risks. The share of recycled and reused water is 93,4% in 2020, which is one of the best rates in the country. The amount of production waste generated in 2020 was 4,56 mln tons, 33% less than in 2019. At the same time, Lipetsk region ranked 18th in the Green Rating of the "Russian Environmental Operator", which analyzes the dynamics of the municipal solid waste management in 2020¹.

The region continues to implement comprehensive environmental programs that help reduce its environmental impact. The Lipetsk regional government implements measures under the state program "Environmental Protection, Reproduction and Rational Use of Natural Resources of Lipetsk Region" that covers all key environmental areas: environmental safety, protection and reproduction of wildlife, development of water management and waste management.

Under the national project "Ecology" the implementation of subprojects financed from the regional budget continued: "Clean Air", "Clean Country", "Integrated System for the Treatment of Solid Municipal Wastes", "Preservation of Unique Water Features", "Conservation of Forests", "Clean Water", "Conservation of Biodiversity".

The regional government has several bodies responsible for the environmental policy – Department of Ecology and Natural Resources; Forestry Department; Department for protection, use of wildlife and aquatic biological resources. The Department of Ecology and Natural Resources publishes reports on the local "environmental situation" on a yearly basis. The report contains detailed information about the key

¹ <https://reo.ru/rating#rec392040350>

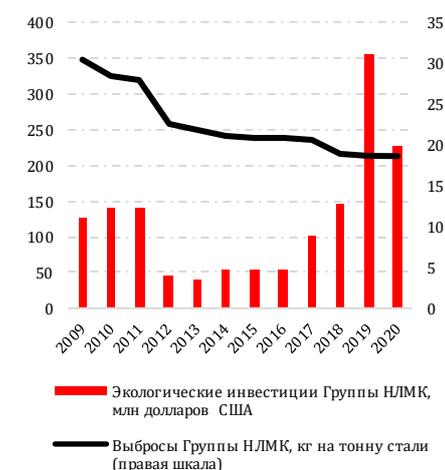
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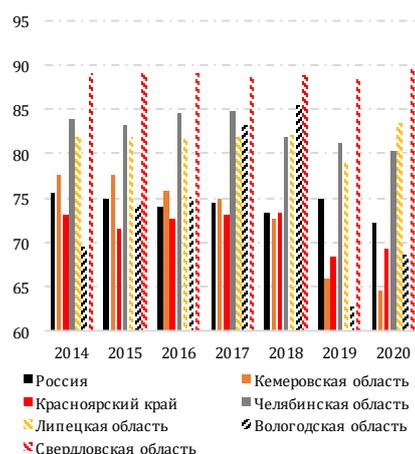
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Graph 3: NLMK Group's environmental metrics



Источник: расчеты RAEX-Еurore на основе данных НЛМК

Graph 4: Share of captured and detoxified air pollutants in the total volume of departures from stationary sources, %



Источник: расчеты RAEX-Еurore на основе данных Росстата

List of major controversies

Controversy	Type of factor
No controversies were found	Экология

Source: RAEX-Europe calculations based on data from the government of Lipetsk region, Ministry of finance of the Russian Federation, Ministry of Natural Resources and Environment of the Russian Federation, public sources of information.

environmental risks and mitigation measures, as well as environmental performance metrics, including air and water pollution. In addition, there is a new special government organization – “Center of the environmental projects” – that is created to monitor the pollution; as well as the hydro-engineering facilities.

Moreover, a regional plan for adaptation to climate change and a plan for scientific and technical activities in the field of environmental development of the Russian Federation and climate change in Lipetsk region are under development.

Moderate level of financing of environmental protection programs

At the end of 2020, only 1,2% of total regional budget expenditures were allocated to environmental programs, and the expenditures of the 2020 consolidated budget under the section "Environmental protection" were only RUB 90 per capita, compared to an average of RUB 470 per capita for Russian regions. Total investments in environmental protection in the region, taking into account non-budgetary sources in 2020 amounted to more than RUB 4,3 bn.

Moderate level of use of environmental opportunities.

The use and development of environmental opportunities in the region is at an insufficient level. The region uses a limited number of technologies with positive environmental effects, such as renewable energy sources, biofuels, energy-efficient outdoor lighting and «green public» transport. According to the Agency's assessment, the efficiency of using most of the mentioned technologies is still low.

The region is implementing a program aimed at developing the gas-engine fuel market, but despite the positive dynamics, the development of infrastructure and vehicle fleet is still at a low level: less than 1% of the bus fleet in the region were capable to use gas-engine fuel in 2020, which is below the average in Russia, according to Rosstat.

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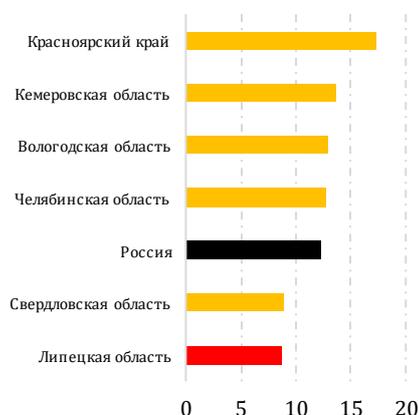
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Social

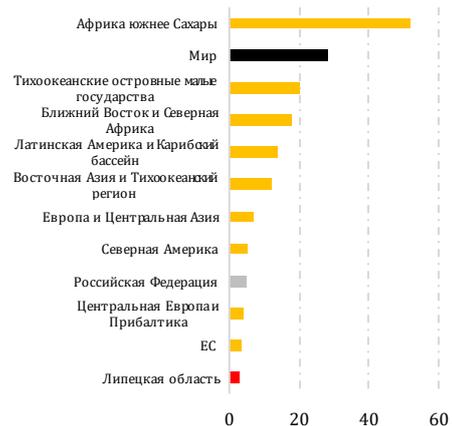
Sub-factor	Score
Social benefits and social security functions	75%
Education	40%
Health care system	82%
Security	82%
Socially responsible industry	26%
Socially responsible programmes	52%
PPP Investment	88%

Graph 5: The share of population with a net personal income below the national minimum, %



Источник: расчеты RAEX-Европе на основе данных Росстата

Graph 6: Infant mortality rate 2019, infant per 1,000 live births



Источник: расчеты RAEX-Европе на основе данных Всемирного Банка и Росстата

² Data from the World Bank is used.

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Low poverty level combined with adequate social budget expenditures per capita. In 2020 the real income of the population in Lipetsk region after 2 years of growth decreased by 5,1% relative to 2019, as in Russia as a whole. However, the share of the population with a net personal income below the national minimum in Lipetsk region tends to decrease year by year and was 8,5% at the end of 2020, which is significantly lower compared to the national average (12,1%) and lower than most peer regions (see Graph 5). The Agency considers that due to the COVID-19 crisis and macroeconomic shocks caused by foreign sanctions, welfare indicators will be under significant pressure in the medium term. Budget expenditures on social support per capita have a constant upward trend and have increased by 31,3% over the last 3 years. Despite that, budget expenditures per capita on social support, adjusted for the cost of living were RUB 19,3 th in 2020 and were lower than the average figure for all Russian regions, which was RUB 22,6 th. However, the Agency considers this level sufficient, since part of the socially oriented expenses were accounted in other sections of the budget.

Moderate level of education metrics. The region is characterized by a moderate share of employed people with higher education compared to the national peers (30% against 35,4% for country's average in 2020), and the region's universities are not represented in major global and country rankings.

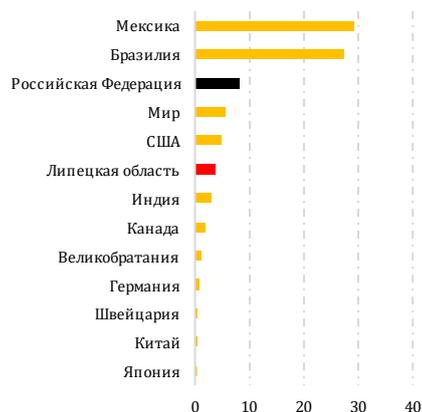
However, the level of per capita spending on education is at an acceptable level (RUB 22 th as compared to the national average of RUB 24,2 th in 2020). The authorities have implemented all the mandatory programs for the regional education system in accordance with the Russian legislation. In addition, elements of the "dual education system" have been introduced in the region, which is seen as an additional positive factor.

Moderately low infant mortality rate combined with an acceptable level of public spending on health care. The infant mortality rate in Lipetsk region is moderately low compared to international levels: 3,7 pro mille in 2020 with a decline to 3,6 pro mille in 2021 compared to the global average of 28,9 pro mille (see Graph 6), while the overall Russian rate was 4,6 pro mille.

Per capita health care spending has steadily increased since 2017, and in 2020, adjusted for the cost of living was RUB 9,6 th, which is lower than RUB 13,6 th average for all Russian regions. However, it is worth to mention that these expenses do not include funds from off-budget funds.

The moderate crime rates compared to the global average are partially mitigated by the level of government spending on security in the region. The number of murders per 100 th people in Lipetsk region in 2020 stood at 3,2 compared to the national average of 4,7 (see Graph 7), which is lower than average on the national level (Russia – 8,2²) and significantly below the levels of developing countries like Mexico or Brazil

Graph 7: The number of murders per 100 000 people in 2020



Источник: расчеты RAEX-Европе на основе данных Всемирного Банка и Росстата

(29 and 27,4, respectively). At the same time, the region's indicators are still much higher as compared to the majority of the EU counties (close to or below 1). However, this indicator has been gradually declining in recent years. Total budget expenditures on security per capita in the region, adjusted for the cost of living, was equal to RUB 0,9 th in 2020. This is a moderate level of spending, while the average figure for all Russian regions was RUB 1,14 th in 2020.

Presence of socially oriented PPP-projects and various social programs. Lipetsk region has improved its position in 2020, taking 55th place in the ranking of Russian regions by the level of PPP development ³. In Lipetsk region, 32 PPP-projects in the social sphere and housing and communal services are being implemented (including 12 projects under the concession law). The total volume of investments attracted in PPP-projects in the Lipetsk Region amounted to RUB 1,38 mln, including private investments – RUB 1,22 mln. In addition, the region implements various socially responsible programs, such as housing programs, programs for creation of public sports infrastructure, support for the disabled, low-income population, etc.

Finally, during the pandemic in 2020-2021, representatives of local businesses initiated a number of socially oriented projects, such as municipal infrastructure and medical facilities, provision of medical equipment and medicines.

Lack of priorities for socially responsible industries and restrictions for controversial industries. The assessment of this indicator reflects the current situation in the region with tax benefits and preferences for socially responsible industries, as well as the presence of additional restrictions or increased taxation for controversial industries. Nevertheless, at the level of current investment strategy of the region one of the tasks is to increase the ecological efficiency, to follow the principles of responsible investing in terms of compliance with ESG principles which is also reflected in the investment declaration approved in 2022 and which will be valid until 2024. The Agency expects that the practical application of these principles in the medium term will favorably influence the development of socially responsible industries in the region.

List of major controversies

Controversy	Type of factor
No controversies were found	Social

Source: RAEX-Europe calculations based on data from the government of the Lipetsk region, Ministry of finance of the Russian Federation, Ministry of Natural Resources and Environment of the Russian Federation, public sources of information.

³ Prepared by the Ministry of economic development of the Russian Federation. See the latest ranking: <https://rosinfra.ru/digest/rating/index>

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Governance

Sub-factor	Score
Stability of the government	93%
Support to the government	38%
Investment attractiveness / business-climate	50%
Industrial parks and free economic zones	100%
Transparency of the regional government in the Internet Regulatory Impact Assessment (RIA) practices OR Similar practices	85%
Anti-corruption commission / department in the regional administration	100%
Characteristics of self-declarations of the employees of administration bodies	84%
Quality of the fiscal budget planning	90%
Quality of the fiscal budget execution	43%
Quality of the debt management	63%
Tax deductions and credits	100%

Moderate level of political risks due to government stability. The Agency indicates a moderate level of political risks in the region, which is due to the absence of active public political conflicts in the region and the stability of the government. The governor Igor Artamonov was appointed acting Head of the Region's Administration in 2018 and then was elected in September 2019 in the public elections with 67,3% of the votes. His current term will end in 2024. There were no political conflicts between the various branches of government, including regional and local government, in 2021.

The assessment of the factor "Support to the government" is lowered by the lack of up-to-date information about the real level of support for the government's actions by the population of the region. Indirectly, the level of support is reflected in the results of sociological surveys of public satisfaction with the activities of local government bodies of municipalities. This survey, conducted in 2020, showed a moderate level of satisfaction of the population on average in the region at 46,3%. In addition, according to the Rating of the influence of the heads of the subjects of the Russian Federation of the Agency for Political and Economic Communications, Lipetsk Oblast governor is in a moderately low 51st position among the governors as of January 2022⁴.

The region's investment infrastructure and business support measures are rated highly, but geopolitical risks have a negative impact on investment attractiveness. The aggregate score of the factor "Investment attractiveness and business support" is above average, which is due to the presence of well-developed investment infrastructure in the region, represented by existing industrial parks, technology parks, regional special economic zones, as well as the special economic zone of the federal level "Lipetsk". The regional government provides reliefs for corporate profit tax (reduced tax rate), property tax (reduction of the amount of tax payables and reduced tax rate) and transport tax for the investors. It also publishes a yearly report concerning the efficiency on the provided tax reliefs in the region. In addition, in order to improve the environmental situation and reduce air pollution, from 2019 the tax reliefs were expanded to the power plants that use "secondary raw materials". However, the assessment of the region's investment attractiveness was downgraded to moderate, given the country risks due to the continued sanctions pressure and the withdrawal of international ratings of the country and regions. In the Agency's opinion, the current and possible foreign sanctions and the related decrease in investment activity of foreign companies may affect the growth rate of investment, including that of Lipetsk Region.

High level of the regional government transparency and well developed regulatory impact assessment procedures. The regional

⁴ http://www.apecom.ru/projects/item.php?SECTION_ID=101&ELEMENT_ID=7682

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government timely discloses key information about government decisions, meetings and vacancies on official websites. In the region the Institute of regulatory impact assessment (RIA) has been established in 2014. This assessment is carried out to reduce the risks associated with the introduction of new regulation, increasing confidence of citizens and businesses in the decisions taken. In 2021, Lipetsk region was included in the group of regions with a "good level" of RIA implementation, according to the rating of RIA development in Russian regions⁵, prepared by the Ministry of Economic Development of the Russian Federation.

High assessment of anti-corruption procedures and anti-corruption measures undertaken in the region.

The Agency positively evaluates the ongoing anti-corruption measures, specifically the transparency of the anti-corruption commission decisions, the approval of the declaration of conflict of interests of civil servants, the measures taken in the field of public procurement, steps to prepare methodological materials and conduct explanatory and educational work for civil servants and the population. In 2020, the Commission for Coordination of Anti-Corruption Activities in Lipetsk Region took decisions to improve anti-corruption preventive measures in the supervision activities, state procurement of goods and services, expenditure of budget funds, as well as measures to identify and eliminate corruption risk zones in the activities of the executive bodies of the regional government. According to the General Prosecutor's Office, the detection rate of corruption-related crimes in Lipetsk region was 96,9% in 2021 (97,8% on average in Russia).

For all administration departments, the 2020 declarations have been published, disclosed online and containing up-to-date information about the income and assets of administration employees and their families.

Moderately high quality of budget execution and debt management in 2020. The agency observes the appropriate quality of the region's budget and debt management in 2019-2021. Lipetsk region in 2019 and 2020 showed a minor deviation between planned budget revenues and expenditures compared to the executed (less than 10% in both items). The region approved the 2021 budget plan on time and had no liquidity gap during the year. In 2021, the difference between planned and executed budget expenditures was also less than 10%, while the revenue was over-performed by 36%, due to above-plan tax revenues. As a result, Lipetsk region closed the financial year with a significant budget surplus. Assessment of the quality of budget execution and debt management in the region is supported by the absence of overdue accounts payable and overdue debt in recent years, the presence of internal audit of the main

⁵ All regions were divided by five groups in accordance with the quality of RIA implementation: highest level; good level; moderate level, satisfactory level; nonacceptable level. See the full text of report is available under the following link: <http://orv.gov.ru/ranking/>

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administrators of budget funds⁶, as well as experience in issuing bonds on local financial market. All debt obligations of Lipetsk region for the last three years have been performed on time and in full. As of 1 January 2022, the share of the region's short-term debt in total debt amounted to 14,8%. In addition, the region's financial authorities have experience in issuing bonds: in 2019-2020, Lipetsk Region issued government bonds in the form of "documentary bearer securities" with a fixed coupon rate of 6,6% and 5,8% per annum (2019 and 2020, respectively), with a total value of RUB 2,5 bn for each year.

At the same time, the Agency can expect deterioration in the quality of budget execution, as well as debt management in the medium term due to destabilization of the country's economy caused by increased geopolitical risks and possible consequences in case of strengthening of the COVID-19 pandemic.

List of major controversies

Controversy	Type of factor
No controversies were found	Governance

Source: RAEX-Europe calculations based on data from the government of the Lipetsk region, Ministry of finance of the Russian Federation, Ministry of Natural Resources and Environment of the Russian Federation, public sources of information.

⁶ The administrator of budgetary funds (the main administrator of funds of the relevant budget) is the state body responsible for the distribution of budgetary funds between the subordinate administrators and (or) recipients of budgetary funds.

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