

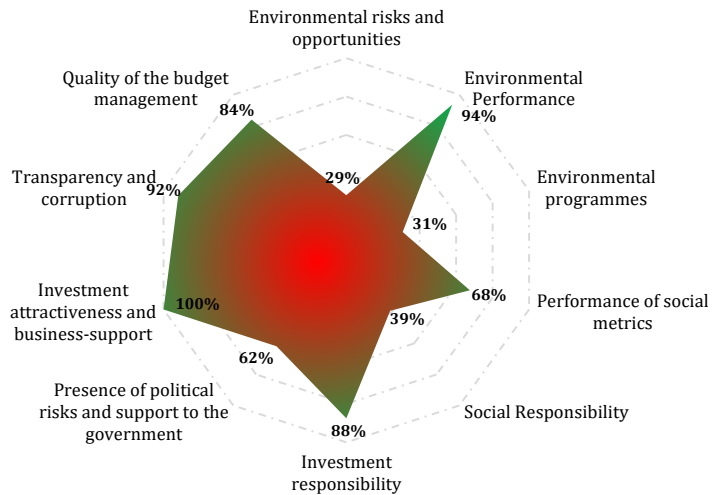
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Risk map



Ratings

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

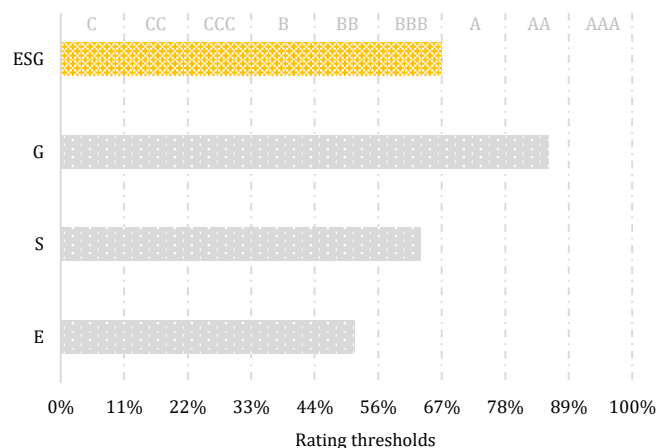
Summary

Rating-Agentur Expert RA confirmed BBB[esg] ESG rating to Lipetsk region, which means that the management of ESG related risks and opportunities is of moderately high level. The ratings of each section are as follows: BB[e] environmental rating, BBB[s] social rating and AA[g] governance rating. The region remains exposed to industry related environmental risks due to the locations of the large industrial enterprises, these risks are partly mitigated by the actions of the authorities and local business. Lipetsk oblast has a strong environmental policy, which is based on the presence of a structured long-term environmental program as well as a public body responsible for the environmental policy. The assessment of social risks was positively supported by the presence of different social programs, good health care and social security metrics while indicators of the education system development were moderate. The assessment of the regional governance was positively supported by the high level of investment attractiveness and transparency, as well as the presence of anti-corruption procedures. The quality of the fiscal budget planning, budget execution and debt management have improved in 2019, but the Agency expects deterioration of these factors in 2020 due to the negative consequences of the COVID-19 pandemic.

ESG scorecard

Section	Sub-section	Weight	Score
Environment	Environmental risks and opportunities	11,1%	29%
	Environmental programmes	11,1%	94%
	Environmental performance	11,1%	31%
Social	Performance of social metrics	11,1%	68%
	Social responsibility	11,1%	39%
	Investment responsibility	11,1%	88%
Governance	Presence of political risks and support to the government	8,3%	62%
	Investment attractiveness and business-support	8,3%	100%
	Transparency and corruption	8,3%	92%
	Quality of the budget management	8,3%	84%

ESG score and rating per section



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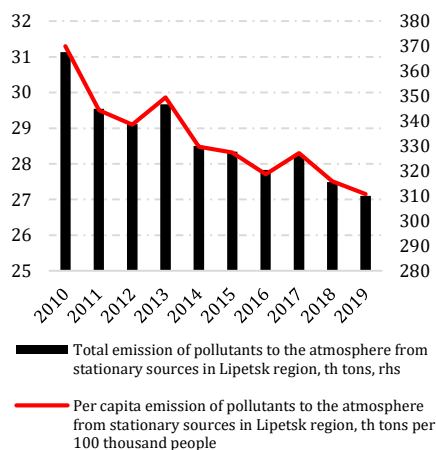
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Environment

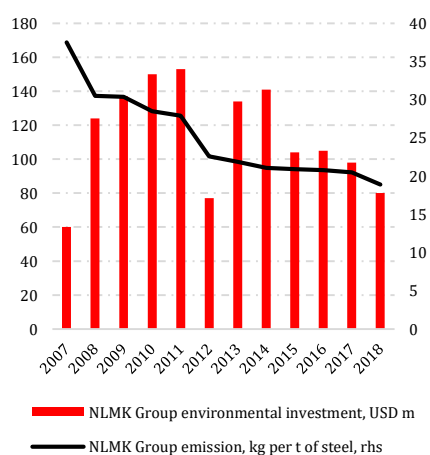
Sub-factor	Score
Environmental risks	19%
Environmental opportunities	38%
Environmental policy implementation and transparency	94%
Budget expenditure and efficiency	31%

Graph 1: Industrial air emission metrics of Lipetsk region



Source: RAEX-Europe calculations based on data from the Rosstat

Graph 2: NLMK Group’s environmental metrics



Source: RAEX-Europe calculations based on data from the NLMK group

Detailed and comprehensive environmental policy program and public bodies responsible for the policy

The regional government has a long-term structured environmental policy program, called “*Environmental Protection, Reproduction and Rational Use of Natural Resources of Lipetsk Region*” that covers all key environmental risks of the region: environmental safety; protection and reproduction of objects of fauna; development of water management complex and handling of waste. This program includes detailed measures, KPIs, responsible authorities and sources of financing. The program was recently extended till 2024, and there is also an annual reporting.

Apart from this, there is a regional program “*Ecology*”, which includes the following sub-projects financed from the regional budget: “*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 biological diversity*”. Finally, in 2019 Lipetsk region joined the federal project “*Ecology*”, which includes the same sub-projects with different environmental protection measures. Moreover, the region’s administration has already reported that the project’s KPIs successfully reached in 2019.

In addition, 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 the reports on the local “environmental situation” on a yearly basis. The report contains detailed information about the key environmental risks and mitigation measures, as well as environmental performance metrics, including air and water pollution, both showing positive (declining) dynamic in 2019. In addition, there is a new special government organization – “**Center of the environmental projects**” – which is created to monitor the pollution; as well as the hydro-engineering facilities.

Moderate level of involvement in environmental opportunities

The region uses a limited number of environmental opportunities, such as solar power, biomass & biofuels, energy efficient street lighting and more ecological fuel for public transport. However, most of the mentioned environmental opportunities’ efficiency is limited according to the Agency’s assessment.

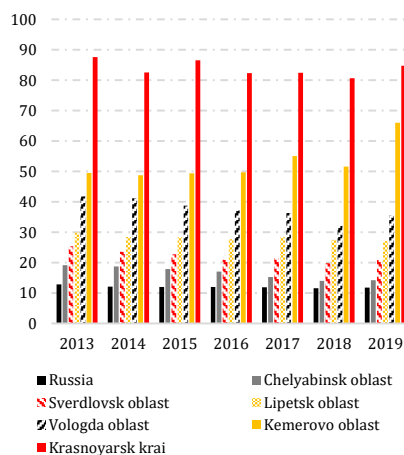
Only 26 buses in the region (0,2% of total amount) were capable to use gas-engine fuel in 2019, which is significantly lower than peers and the average figures for Russia (8,2%), according to Rosstat.

Moderate level of financing provided for environmental protection programs

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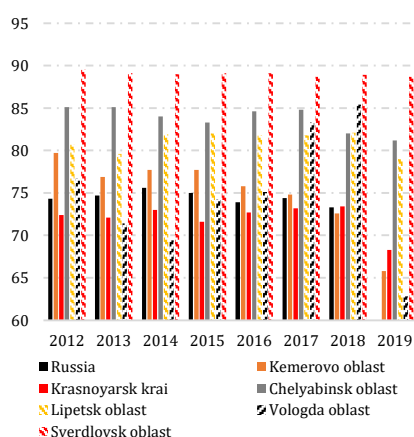
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Graph 3: Per capita emission of pollutants to the atmosphere from stationary sources, th tons per 100 thousand people



Source: RAEX-Europe calculations based on data of the Rosstat

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



Source: RAEX-Europe calculations based on data of the Rosstat

According to the 2019 results, only 1,5% of the total regional budget expenditures were attributed to ecology-related programs, while per capita expenditures of the 2019 consolidated budget in the section “Environmental protection” were only RUB 80 per person as compared to RUB 470 per person on average for all Russian regions and below its national peers¹ (according to 2020 preliminary data these metrics were RUB 90 and 470 per person respectively). In addition, the region has a limited involvement in the internationally recognized environmental programs.

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

Lipetsk oblast is heavily exposed to various environmental threats, especially to *industrial air pollution*, due to the Novolipetsk Steel Factory (part of NLMK group²), which is located in Lipetsk. The region ranked 13th in total emissions of pollutants from stationary sources with 310 th tons of overall emissions, while per capita emissions stood at 26,8 th tons (12th place), which is 2,3x higher than the country’s average (see Graph 1). This key risk is partly mitigated by various actions performed by the local and federal governments, as well as directly by the NLMK group. The latter has been implementing the long-term environmental program for the Lipetsk facility, the result of which is shown by the declining dynamic of air emissions per ton of steel (see Graph 2). *The overall risk mitigation is shown by the reduced level of emissions per capita and a very high share of captured and detoxified air pollutants in the total volume of departures from stationary sources as compared to the national peers (79% against 75% country average) (see Graphs 3 and 4).*

In addition, there are new initiatives that involve both local business and authorities, such as the “Green code” – the voluntary principles of “environmental friendly” production, which have been ratified by several local companies such as JTI, Lebedyan Milk, Metall Trade, etc. Finally, NLMK Group, the Government of Lipetsk region, Rosprirodnadzor as well as the Ministry of Natural Resources and Environment of the Russian Federation signed an agreement with the aim of reduction of overall volume of air and water pollution in the region.

List of major controversies

Controversy	Type of factor
No controversies were found	Environmental

¹ The regions where the largest steel factories are located were used as national peers.

² The largest steel-producing company in Russia and 17th in the World according to the 2018 results (<https://www.worldsteel.org>).

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.

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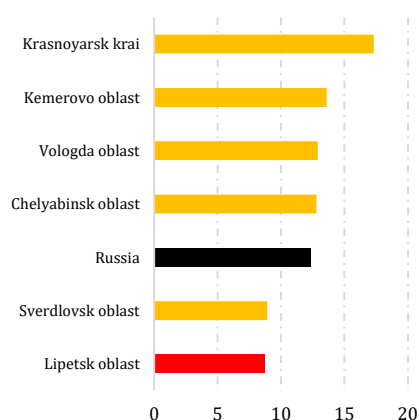
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Social

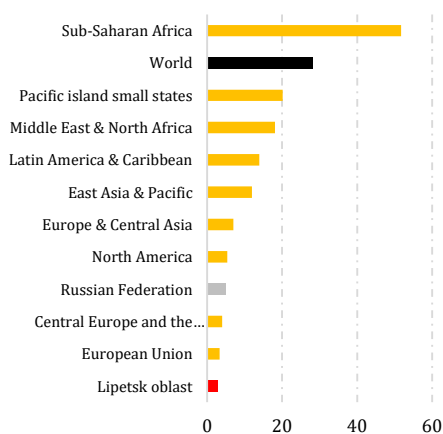
Sub-factor	Score
Social benefits and social security functions	63%
Education	40%
Health care system	82%
Security	82%
Socially responsible industry	26%
Socially responsible programmes	58%
PPP Investment	88%

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



Source: RAEX-Europe calculations based on data from Rosstat

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



Source: RAEX-Europe calculations based on data from the World Bank and Rosstat

Moderately low poverty levels as compared to other Russian regions combined with an adequate level of budget expenditures on social support per capita

The share of population with a net personal income below the national minimum in Lipetsk region was 8,7% as of the end-2019, a positive figure when compared to country’s average of 12,3% and below most of the regions-peers (see Graph 5). However, due to the COVID-19 crisis these metrics are expected to hike in 2020 both for the regional and national level.

Even though we observed that total budget expenditures on social support per capita adjusted by the local cost of living at RUB 19,5 th (54th place) in 2020 was below the average figure for all Russian regions of RUB 22,6 th, we consider this level as adequate since part of the socially oriented expenses were accounted in other sections of the budget. In addition, the metric was growing over the last three years.

Presence of socially oriented PPP-projects and various social programs

Out of 89 PPP projects in Lipetsk region (2018 latest available data), 52 are social infrastructure projects (around 58%), such as local utilities, water and heating supply facilities. However, only 12 projects out of 52 are finalized. Also, despite Lipetsk region ranked only the 56th out of 85 in the ranking of Russian regions 2019 by the level of PPP development³, we still consider that the socially-focused PPP projects are substantial. In addition, the region is involved in various socially responsible programs such as housing programs, public sport programs, support of disabled persons, poor people, etc.

Finally, during the 2020 pandemic period local enterprises as well as foreign investors initiated several socially oriented projects, such as municipal infrastructure and health care facilities, provision with the medical equipment and drugs.

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

Lipetsk region has a moderately low level of infant mortality rate as compared to international levels: 2,9 pro mille in the oblast in 2019 as compared to 28,9 pro mille in the World (see Graph 6), while the national level stood at 4,9 pro mille (according to World Bank data).

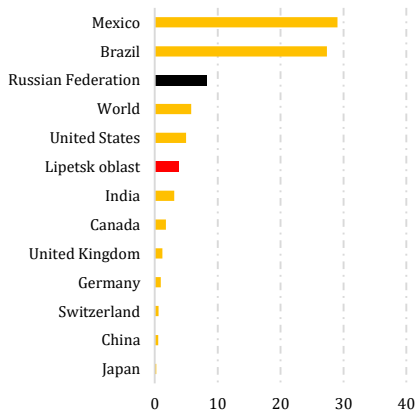
In addition, the region occupied the 31st place by total amount of spending on the health care system per capita in 2019 (adjusted for the cost of living): RUB 6,5 th as compared to a RUB 7,9 th average for all Russian regions. However, it is worth to mention that these expenses do not include funds from off-budget funds.

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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Graph 7: The number of murders per 100 000 people in 2019



Source: RAEX-Europe calculations based on data from the World Bank and Rosstat

Moderate level of education metrics

The region is characterized by a moderate share of *employed people with higher education as compared to the national peers* (32% against 34% for the country’s average in 2019), as well as an acceptable amount of spending on education per capita (RUB 20,9 th as compared to RUB 22,8 th country average in 2019). The authorities has in place all obligatory programs for the regional education systems according to the Russian regulation. Moreover, the region has implemented some elements of the “Dual education system”, which is considered as additional positive factor. However, there are no universities from the region included in the major global universities rankings.

Moderate level crime rates as compared to global peers are partly mitigated by the level of public spending on security in the region

The number of murders per 100 th people⁴ in Lipetsk region stood at 4,2 in 2019 as compared to a world average of 5,8 (see Graph 7), which is lower than average on the national level (Russia – 8,2⁵) and substantially below of the levels of such developing countries as Mexico or Brazil (29 and 27,4 respectively). At the same time, the regional levels are still much higher as compared to the majority of the EU counties (close or below 1).

At the same time, this indicator was gradually declining in recent years. Total budget expenditures on security per capita in the region adjusted by the local cost of living was equal to RUB 876 (38th place), while the average figure for all Russian regions was RUB 1142 in 2020.

Lack of priorities for socially responsible industries and restrictions for controversial industries

The investment policy of the region has no clear social priorities, which is evidenced by the priorities listed in the investment strategy of the region, as well as industries receiving tax reliefs and deductions. Moreover, the region does not impose additional restrictions or increased taxation on the majority of controversial industries.

List of major controversies

Controversy	Type of factor
No controversies were found	Social

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

⁴ “Number of murders per 100 th people” is national indicator for the Russian Federation, that was compared with the World Bank indicator: “Intentional homicides (per 100 th people)”.
⁵ Data from the World Bank is used.

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Governance

Sub-factor	Score
Stability of the government	86%
Support to the government	38%
Investment attractiveness / business-climate	100%
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	57%
Quality of the debt management	88%
Tax deductions and credits	100%

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

According to the Rating of investment attractiveness from RAEX-Analytics for 2020, Lipetsk region was attributed to the group 3A1 (reduced potential - minimal risk), and occupied the 3rd position in terms of risks (the regions are listed from the lowest to the highest level of risks). In addition, investment attractiveness of the region was supported by the presence of two acting industrial parks, technological parks, regional special economic zones, as well as a federal special economic zone “Lipetsk”. Moreover, the regional government provides reliefs for corporate profit tax (reduced tax rate)⁶, 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 in regard to 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”.

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

The regional government discloses key information about the government’s decisions, meetings and vacancies on time on its websites. However, the region has a room for improvement in terms of structure of its websites (*currently the structure is decentralized*), as well as deepness of information disclosure. In addition, the region has an acting system of regulatory impact assessment (RIA) with a special section on the website including contact details for provision of comments and an official public body responsible for this process. Moreover, in 2020 Lipetsk region was attributed to the group of regions with the “**highest level**” of RIA implementation⁷ (the region was included to the TOP-10 regions with the highest quality), according to the rating of RIA development in Russian regions, prepared by the *Ministry of Economic Development of the Russian Federation*.

Presence of anti-corruption procedures, satisfactory level of the self-declarations disclosure as well as improved level of the anti-corruption procedures

The commission for the coordination of anti-corruption activities in Lipetsk oblast has been in place since 2015, conducting meetings at least every quarter and disclosing the minutes publicly. In addition, there is the Office for Anti-Corruption, Control and Compliance established in 2015 as

⁶ This type of tax reliefs are planned to be expanded to additional types of companies (33 additional types of activity) from 2020 in order to promote investment activity.

⁷ 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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a special permanent government body in the structure of the administration.

Moreover, the Agency noticed improvement of the anti-corruption procedures on the regional level in 2019-2020, namely improved transparency of the anti-corruption commission's decisions, implementation of the anti-corruption KPIs for the government bodies, additional measures for the state procurements, implementation of the declaration on the conflict of interests for the government employees.

All public bodies of the government have self-declarations for 2019 disclosed online and containing the actual information about the income and property of employees and their families.

However, the efficiency of the anti-corruption and disclosure policies have a room for improvement since there were cases of inefficient disclosure on the municipal level in 2020.

Moderate level of political risks

The current governor of the region was assigned by the President of the Russian Federation on the 2nd of October 2018 as an acting Head of the Regional Administration and then he was elected in September 2019 in the public elections with 67,3% of the votes. His current term will end in 2024. The combination of the share of votes and the fact that the next elections are not planned at least for the next four years, are considered as positive factors according to the Agency's methodology. However, the consequences of the economic crisis 2020 as well as the upcoming elections in September 2021 pose latent risks for the political stability in the region.

Political risks are partly mitigated by the absence of active public political conflicts in the region. However, in 2019-2020 the conflict between the new regional government and administration of the City of Lipetsk was observed. In addition, the position of the governor in the independent political science ranking is assessed as moderately low⁸.

Moderately high quality of fiscal budget execution and debt management in 2019

The quality of fiscal budget execution and debt management in Lipetsk region was supported by the absence of overdue accounts payable and overdue debt over the last years, presence of internal audit for the budget administrators⁹, as well as experience in issuing bonds on the local financial markets. Moreover, in 2019 FY the deviation of the amount of budget spending in the 4Q from the average amount during 1-3Q of the year, has declined substantially and reached around 15,6%¹⁰ (as compared to average of 20,5% for Russian regions).

⁸ According to the ranking of "Petersburg Policy Fund" think tank for January 2021, the Lipetsk region was attributed to the group of regions with "moderate political resistance": <https://fpp.spb.ru/fpp-rating-2021-01>

⁹ The administrator of budgetary funds (the main administrator of the funds of the corresponding budget) is the public authority (state body), responsible for allocating budgetary funds to subordinate managers and (or) recipients of budgetary funds.

¹⁰ The ratio is calculated as Deviation of the volume of budget expenditures in the 4Q from the average volume of expenditures for 1-3Q, excluding expenditures made at the expense of earmarked funds received from the federal budget

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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), total value of RUB 2,5 bn for each year.

At the same time, the Agency can expect deterioration of the quality of the budget execution as well as debt management according to the assessment for 2020 due to the decline of the revenues, additional costs as well as other negative unexpected consequences of the COVID-19 pandemic.

Improved quality of fiscal budget planning in 2019

The quality of the fiscal budget planning in the region has improved in 2019 as compared to 2018 FY. On contrary to the previous years, Lipetsk region showed low difference between the planned budget revenues and expenditures for 2019 as compared to the executed (less than 10% for both items). Also, the region approved its fiscal plan for 2019 on time and has no liquidity gaps during the year, which gave some support to the end-assessment of this factor.

The frequency of the changes of the fiscal budget slightly declined in 2019 (five times as compared to six times in the previous year), but remained above the regulatory required maximum of four times per year.

In the Agency’s view, the quality of the fiscal planning in 2020 has deteriorated in all regions due to the abrupt and unpredicted changes in the macroeconomic environment related to the COVID-19 pandemic. However, the full comprehensive assessment of the fiscal budget management will be available only in September 2021.

List of major controversies

Controversy	Type of factor
No controversies were found	Governance

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

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Minute's summary:

The rating committee for ESG rating of Lipetsk region was held on **11 March 2021**. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the ESG methodology for regions. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: Methodology for Assigning ESG Ratings to regions – Short Public Version (from September 2017) can be found under the following link: https://raexpert.eu/files/methodology/Methodology_ESG_Region.pdf. Descriptions and definitions of all rating categories can be found under the following link: https://raexpert.eu/esg_regions/ under the "Rating scale" section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

This rating is solicited. The rated entity participated in the rating process.

Main sources of information: The Government of Lipetsk region, Ministry of Finance of the Russian Federation, Ministry of Economic Development of the Russian Federation, Ministry of Natural Resources and Environment of the Russian Federation, public sources of information.

Limits of the Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the region with information considered as the most reliable and up to date in accordance to the overall position of the region and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Regulatory use

ESG ratings are not considered as credit ratings within the framework of the EU Regulation (EC) No 1060/2009.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process.

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Office responsible for preparing the rating

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