RT&A, Special Issue No 5 (75)
Volume 18, November 2023

ESG - CRITERIA AT THE PRESENT STAGE OF SOCIETY DEVELOPMENT

Alisa Olisaeva[1], Marina Galazova[1], Leyla Magomayeva[2], Anastasia Ledovskaya[3]

•

[1] North-Ossetian State University named after K.L.Khetagurov, Russia
[2] Millionschikov Grozny State Oil Technical University, Russia
[3]Stavropol Branch of the Russian Academy of National Economy and Public Administration
alisa.olisaeva@mail.ru
galazovam@mail.ru
rumanovna@gmail.com
an.led@mail.ru

Abstract

Modern society is developing in the direction of redistributing capital flows as part of the global trend towards decarbonization, developing environmental standards and increasing the social responsibility of business and the economy as a whole. Investors are actively increasing their investments in companies that support sustainable development strategies, as changes related to ESG principles are taking place around the world and are seen by most participants as a promising opportunity for development and revenue generation. The current challenge facing society and business is to study the ESG agenda, implement it into operations and develop appropriate recommendations to promote ESG principles to improve the environment and well-being of the global community. In order to address inequality and stimulate economic growth, the UN adopted the 2030 Agenda for Sustainable Development in 2015 and launched a plan to ensure sustainability for present and future generations, reduce poverty and improve the lives of people around the world. Governments and business communities in various countries are realizing the adverse impacts of climate change, which affects the well-being and economic status of the nation, and building a more sustainable global economy contributes to reducing greenhouse gas emissions that cause climate change. Priority tasks of the global community are multifunctionality and demand for the development and implementation of specific mechanisms for achieving sustainable development goals based on the integrated solution of economic, environmental and social problems and harmonization of long-term interests of the state, business and civil society.

Keywords: ESG criteria, sustainable development, companies.

I. Introduction

Sustainable development and combating climate change are interlinked, and both are vital to the well-being of humanity, as reflected in the Sustainable Development Goals (SDGs). The UN has been working on sustainable development, addressing social and environmental issues for decades.

In 1987, Chairman Gro Hrlem Brundtland introduced the concept of sustainable development in the report "Our Common Future" prepared by the International Commission on Environment and Development (ICED), stating that "the environment does not exist in isolation from human activities, needs and desires. Decisions on the future modes and paths of economic development of the industrialised countries, given their economic and political power, will have a very significant impact on the ability of the entire world population, of all future generations, to achieve progressive sustainable development. What is needed now is a new era of economic growth - growth that is significant and at the same time socially and environmentally sustainable."

A significant impact on the formation of sustainable development and its implementation in modern life was made by the decision of the 2nd UN World Conference on the creation of the Declaration on Environment and Development (Rio de Janeiro, 1992), which introduces a program of action aimed at the implementation by national governments of the concept of global sustainable development, and the term "sustainable development" is widely recognized and is a direction of action for the implementation by national governments of the concept of global sustainable development [1]. Since the adoption of the Declaration, national governments have adopted and implemented programs and regulations to implement global sustainable development, which is still relevant today. We are now witnessing the emergence of an integrated approach to achieving global sustainable development, by bringing together the three important pillars of sustainable growth, which have an impact on economic and social progress, both nationally and internationally.

II. Methods

The evolution of sustainable development has led to the introduction of ESG concept including Environmental (environmental impact), Social (personnel and local communities), Governance (information disclosure and management) which are referred to as ESG criteria.

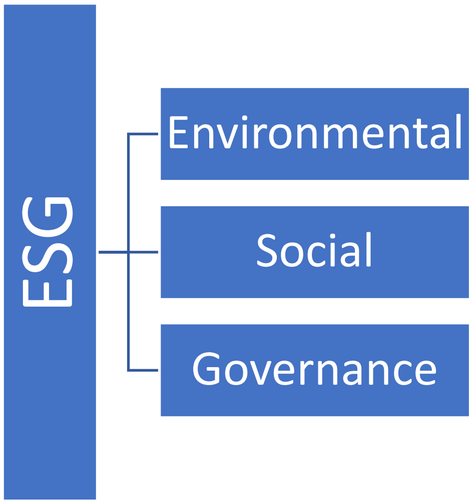

Fig. 1: *ESG criteria*

The report of the International Commission on Environment and Development (ICED) reflects throughout the document the idea that economic growth relies heavily on natural resources and that the driving force behind economic growth is new technology, which, while offering the potential to slow down the dangerously fast pace of exploitation of finite resources, poses a great risk of new life forms that could change the direction of evolution [2]. There is a clear call for national governments, companies and industries most dependent on natural resources, and indeed all of humanity, to adhere to the ESG principles.

In September 2015, 17 Global Sustainable Development Goals were agreed by the UN General Assembly and adopted by all UN Member States to protect the planet, eradicate poverty, improve the quality of life and prospects for people around the world in parallel with increasing economic growth [3].

States at the national level had to revise and adopt new priorities for the SDGs, meet targets for saving the environment, increasing the social responsibility of businesses. Today it is the culture of life of society, state and business. The importance of ESG should be considered on the same level with such concepts as: democracy, human rights, market economy and others.

We also see a growing role for independent assessment through ESG rating and company ranking, screening services, indices, and climate impact assessment tools. ESG rating allows investors and counterparties to determine the company's level of responsibility, as well as environmental, social and governance risks arising from interaction with the company. The current economic situation contributes to the fact that companies are focusing on the social agenda for objective reasons. At the same time, environmental issues remain relevant for business, which is due, firstly, to the tightening legislation in the field of environmental protection, and secondly, to the possibility of obtaining economic benefits from the introduction of "green" technologies and environmental initiatives.

Companies that have already started the process of implementing sustainable development practices into their business strategies, including localization of production and creation of sustainable supply chains, are in the most advantageous position.

Information on the company's contribution to the green economy allows investors, stakeholders and organizations to more carefully select business entities for long-term investments, which contributes to a higher rating of the company when evaluating non-financial statements. If the familiar financial reporting of companies is added by non-financial reporting, it gives international business ratings even more thoroughness, which in turn entails new conditions for borrowing, access to capital, development and prosperity.

For example, the European Securities and Markets Association's (ESMA) Sustainable Finance Roadmap 2022-2024 reflects the priority areas for sustainable finance and the transition to a green and sustainable economy for the European Union (EU) [4].

Directive 2014/95/EC of the European Parliament and of the Council on improving the consistency and comparability of non-financial information disclosed throughout the EC states that large undertakings which are public-interest entities exceeding on their balance sheet dates the criterion of the average number of 500 employees during the financial year shall include in the management report a non-financial statement containing information to the extent necessary for an understanding of the undertaking's development, performance, position and impact of its activity, relating to, as a minimum, environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters. Companies should include in the relevant entity's management report a description of the policies, outcomes and risks associated with ESG governance issues [5].

III. Results

In early 2005, UN Secretary-General Kofi Annan invited a group of the world's largest institutional investors to join the process of developing the Principles for Responsible Investment. The group of 20 investors from institutions in 12 countries was supported by a panel of 70 experts from the investment industry, intergovernmental organizations and civil society.

Figure 1 shows that in 2006 only 63 financial institutions signed the declaration on implementation of the 6 principles developed as Principles for responsible investment (PRI), and by 2021 3826 financial institutions have already signed the declaration [6]. This indicates a demand from market participants to invest in the green economy, and investors are focused on ESG ratings [7].

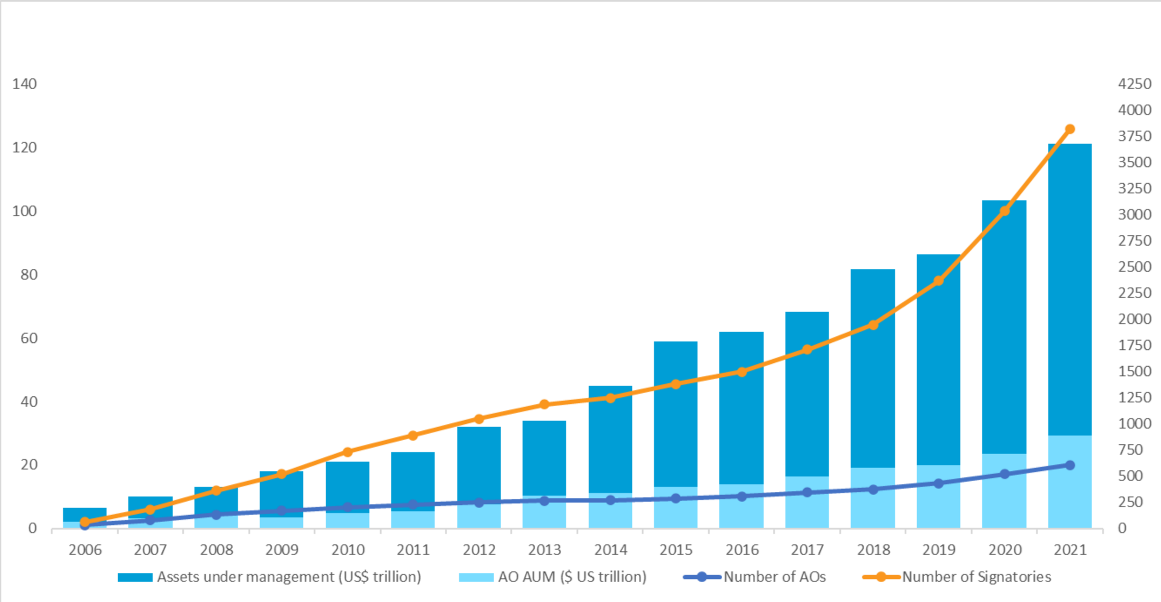

Fig. 2: *Dynamics of PRI member growth c 2006 through 2021.*

PRI signatories believe that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and over time).

Table 1 provides a comparative characterization of countries in terms of reducing greenhouse gas emissions. Analysis of the table data shows that of the selected countries, Azerbaijan is the country that approved the Paris Agreement in 2017, while Kazakhstan only ratified the Paris Agreement in 2023. The largest amount of greenhouse gas emissions is observed in China (12055 MtCO2e), the smallest amount of emissions is observed in Azerbaijan (53 MtCO2e), United Arab Emirates (244 MtCO2e).

Table 1 shows Comparative characterization of countries in reducing greenhouse gas emissions for 2020-2022 (Table 1).

The seven largest emitting countries (China, USA, India, EU, Indonesia, Russian Federation, Brazil) accounted for about half of global greenhouse gas emissions in 2020. 20 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, UK, USA and EU) are responsible for 75% of global greenhouse gas emissions [8].

Table 1: *Comparative characterization of countries in reducing greenhouse gas emissions, 2020-2021*

Country	Assets under management of ESG funds (EPFR data)	GHG emissions	GDP (PPP)	Population	Target year	ESG lending	Funding required to achieve carbon neutrality	Ratification of the Paris Agreement
Azerbaijan	-	53 MtCO2e	$146.3 bn	10.3m	2030	*	No precise estimate available	2017
Germany	-	720 MtCO2e	$4.4 tn	83.4m	2045	-	-	2020
United Arab Emirates	-	244 MtCO2e	$660.3 bn	9.4m	2050	There is no accurate estimate of ESG lending in the UAE	$ 681 bn	-
Brazil	-	1452 MtCO2e	$3.1tn	214.3m	2050	-	-	-
Turkey	-	460 MtCO2e	$ 2,7 tn	84,8 m	2053	(2020) $ 1,2 bn	-	2021
China	$ 46,7 bn. **	12055 MtCO2e	$24.9tn	1.4 bn	2060	$ 2,5 tn (+33 % in 2020)	$ 21 tn	-
Russian Federation	-	1925 MtCO2e	$ 4,1 tn	145,1 m	2060	-	-	2020
India	***	3364 MtCO2e	$ 9,3 tn	1,4 bn	2070	$ 4,6 bn ****	$ 10 tn	2022
Kazakhstan	-	272 MtCO2e	$ 494,7 bn	19,2 m	2060	3 loans for $62 mn	$ 666,5 bn	2023
*	There is no accurate estimate of ESG lending in recent years in the country. In September 2022, the EBRD granted a $100 million loan to Azerbaijan Caspian Shipping Company for fleet modernization. In 2019, the EU has allocated € 830 thousand for the implementation of a greenhouse gas emission reduction project under the EU4Climate project. At the end of 2021, the Asian Development Bank has provided support for 65 projects worth $ 3.7 billion.							
**	Inflows to ESG funds in China totaled $11.3 billion in 2021, up 149% from 2020.							
***	Assets under management of ESG funds (EPFR data) $ 1.5 billion x4.7 over the 2019-2021 period							
****	Amount of outstanding loans for green energy in 2021 (Central Bank of India data)							

A source: https://zerotracker.net/

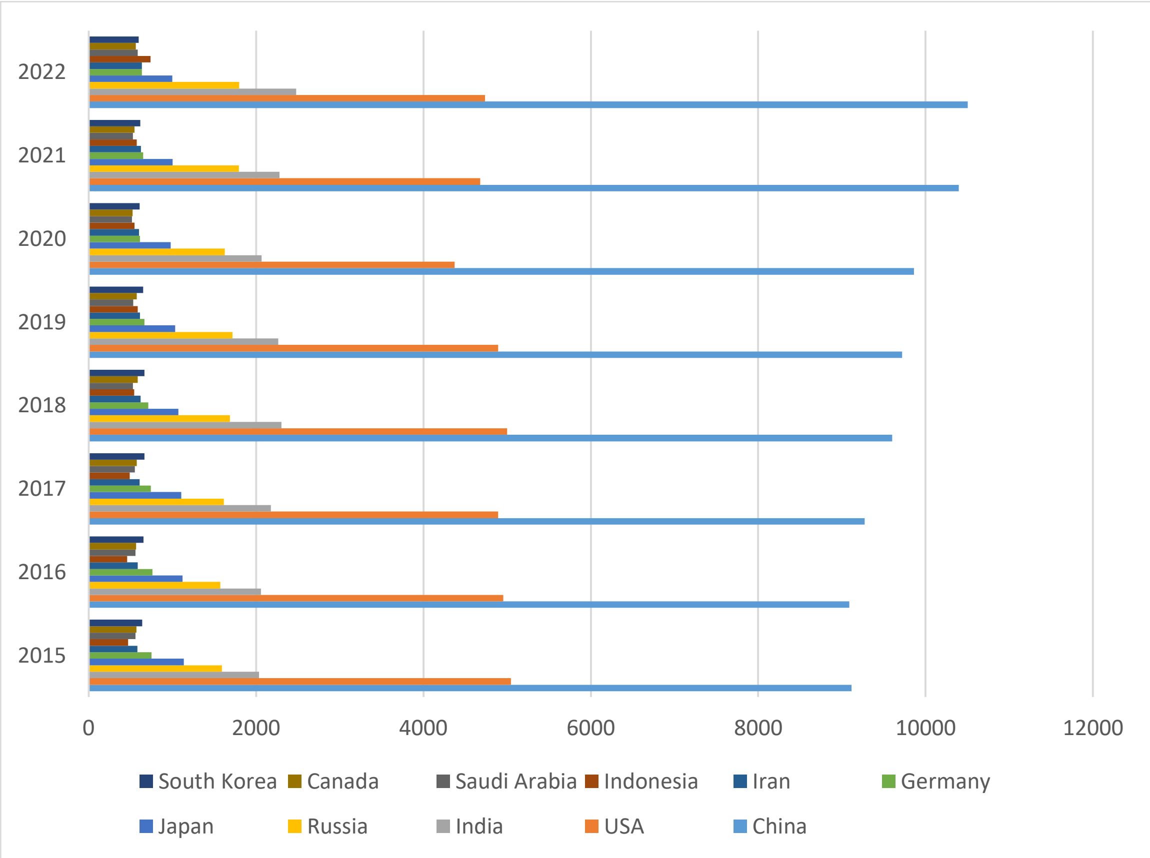

Fig. 3: *CO2 emissions from fuel combustion for 2015-2022 (MtCO2e).*

Figure 3. shows data from Enerdata, an independent research company specializing in the analysis and forecasting of energy and climate issues, where China has a 10-year lead in greenhouse gas emissions of 8,752 MtCO2e in 2012 and 10,504 MtCO2e in 2022. Stably for ten years, the top ten countries with the highest greenhouse gas emissions, in addition to China, are the United States, India, Russia, Japan, Germany, Iran, Saudi Arabia, South Korea, and Canada. Based on 2022 data, of the analyzed countries, we observe minimal GHG emissions in Canada (563 MtCO2e), Saudi Arabia (587 MtCO2e) and South Korea (597 MtCO2e).

Information about a company's contribution to the green economy allows investors, stakeholders, organizations, and the government to more carefully select companies for long-term investments based on their environmental impact.

The implementation of the Paris Agreement in the Russian Federation is legitimized by the adoption of documents providing for the transition to climate change and its consequences, for example, in 2020 the Federal Law "On limiting greenhouse gas emissions" was adopted, and in 2021 the Strategy of socio-economic development of the Russian Federation with low greenhouse gas emissions until 2050 was adopted. Large Russian companies are adopting local regulations to implement sustainable development and commitment to the SDGs. In order to analyze the application of ESG criteria, data from a number of industrial companies in the Russian Federation were considered.

According to the data provided in Table 2, large industrial enterprises are taken as a basis, so in five out of six companies there is a sustainable development committee, which indicates a commitment to the principles of sustainable development, which is understood as a balanced and socially acceptable combination of economic growth and preservation of a favorable environment for future generations. Environmental responsibility costs are represented by impressive amounts, so in PJSC "LUKOIL" costs amounted to 50,687 million rubles, in PJSC "GAZPROM" costs amounted to 36,303.2 million rubles for 2021. According to the Declaration on Environment and Development, ESG reports contain information on women's share in corporate governance, as Principle 20 outlines the vital role of women in environmental management and development [11]. Therefore, their full participation is essential to achieve sustainable development. According to Table 2, we observe the presence of women in corporate governance, with the exception of the State Corporation "Rostec".

Table 2: *ESG criteria of Russian industrial companies for 2021*

Name of the company	Revenue, rub.th.	Number of personnel, persons	Year of publication of the last non-financial report	Environmental liability, rub.th.	Social responsibility, rub.th. (employee training expenses)	Corporate governance (share of female executives), %	Existence of a sustainable development committee	Year of approval of the regulation on risk management / including ESG risks
PJSC «GAZPROM»	10 241 353 000	479 200	2021	36 303 250	-	24,1	+	2018/ 2021
PJSC «LUKOIL»	9 435 143 000	102 424	2021	50 687 000	854 000	26	+	2016/2021
State Corporation «Rostec»	2 063 900 000	591200	2021	-	-	-	-	2021/2021
PJSC «MMC «NORILSK NICKEL»	1 316 900 000	77 755	2021	21 100 000	-	24,4	+	2016/-
PJSC Uralkali	305 275 000	20 712	2021	2 466 379	72 615 363	20	+	2020/2021
State Atomic Energy Corporation "Rosatom"	1 447 600 000	288 500	2021	21 100 000	-	18,99	+	2015/2015

A source: https://esg-disclosure.ru/company/

According to Interfax - Corporate Information Disclosure Center, social responsibility for the analyzed period of 2021 is represented in the form of employee training expenses by two companies PJSC "LUKOIL" (854,000 thousand rubles) and PJSC Uralkali (72,615,363 thousand rubles) [10].

However, the environmental report of PJSC "GAZPROM" for 2022, provides information on the environmental training of Gazprom Group personnel for the period 2018-2022, in which 39,945 people received environmental training, of which the number of employees trained in the Environmental Management System (EMS) amounted to 11,953, which is 30% of the total number of trainees for the period [12].

PJSC "MMC "NORILSK NICKEL" in the report on sustainable development for 2022 shows that in 2022, 216 thousand pieces of man-training (including vocational training, retraining and advanced training) were carried out, which is 87% higher than in the previous year. On average, there are 85 hours of training per average headcount employee, 95 hours per male employee, and 62 hours per female employee [13].

Thus, the information provided by analytical agencies does not always fully disclose information about the activities of companies within the ESG principles, and for a complete presentation it is necessary to study in more detail the statements of the analyzed company separately.

The importance of ESG for Russian business is confirmed by the research of Expert RA rating agency, conducted in November 2022 through a survey of rating clients from various sectors of the economy. The demand for ESG information both in Russia and abroad is still high, and the importance of ESG-awareness has not diminished at all; for many companies it remains strategic. A survey of rating clients from various sectors shows that, according to the results of the survey, for 67% of respondents the importance has remained, and for 5% it has also increased. In addition, the majority of companies that participated in the survey are already doing more for ESG-awareness than they should according to legislation [14].

Thus, the current events prove that it is in periods of turbulence that ESG-awareness gains the greatest importance, becoming not just a popular trend, but a real business strategy that determines the development of the company.

IV. Discussion

The ESG agenda in the world is developing rapidly, setting strategic directions for many companies and countries. Adherence to ESG principles is becoming an almost mandatory condition for maintaining business sustainability in the short term and maintaining effective functioning in the future. The adoption of the process of transition to sustainable development culminated in the announcement of 17 SDGs, which combine the directions of social, environmental and economic development, which are reflected at the level of the state and at the level of companies. Investors are increasingly interested not only in dividends and profits, but also in the social and environmental responsibility of a business. In Europe, more than half of assets are managed by investors who pay attention to non-financial factors. According to EY, 97% of institutional investors evaluate a company for its responsibility to society.

Global business is embracing new trends and the term "sustainable development" has been supplemented with the ESG (Environmental, Social and Corporate Governance) category. Although almost no one distinguishes between the two, the results of adherence to "sustainability" can be radically different from the results of compliance with ESG criteria, which create a kind of "company attractiveness index". Companies are assessed based on their ESG rating, as well as their strategy for promoting sustainable development. The priority of the company's activities is determined by the ability to conduct practical activities in accordance with "sustainable development", formulated within the framework of the UN Sustainable Development Concept and considered as economic growth that does not harm the environment and contributes to the resolution of social problems, finding a balance between economic, environmental and social development.

In the 21st century, the need to preserve the environment for future generations has become evident, as it is not enough to have good financial performance, so the concept of sustainable growth becomes a kind of new corporate philosophy. Promoting environmental initiatives has become a worldwide challenge. Efforts in this area are underway at both the state, legislative and private business levels of various sizes. The level of responsibility of companies towards the future is increasing. This trend concerns not only ecology, but also social and management aspects, which is why the ESG sphere is being actualized.

References

[1] Agenda 21: United Nations [adopted by the UN Conference on Environment and Development, Rio de Janeiro, June 3-14, 1992. /
URL: https://www.un.org/ru/documents/decl_conv/conventions/agenda21.shtml

[2] Report of the International Commission on Environment and Development (ICED). / URL:https://www.un.org/ru/ga/pdf/brundtland.pdf

[3] Promoting sustainable development. / URL: https://www.un.org/ru/our-work/support-sustainable-development-and-climate-action

[4] European Securities and Markets Authority. /
URL: https://www.esma.europa.eu/document/sustainable-finance-roadmap-2022-2024

[5] Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups. / URL: http://data.europa.eu/eli/dir/2014/95/oj

[6] Principles for responsible investment. An investor initiative in partnership with UNEP finance initiative and the un global compact. / URL: https://www.unpri.org/download?ac=10948

[7] Principles for Responsible Investment/ / URL: https://www.unpri.org/about-us/about-the-pri .

[8] NET ZERO TRACKER. / URL: https://zerotracker.net/

[9] Independent research company specializing in analysis and forecasting of energy and climate issues «Enerdata». / URL: https://energystats.enerdata.net/co2/emissions-co2-data-from-fuel-combustion.html

[10] Interfax Information Group / URL: https://esg-disclosure.ru/company/.

[11] Declaration on Environment and Development. /
URL: https://www.un.org/ru/documents/decl_conv/declarations/riodecl.shtml

[12] Environmental Report of PJSC "GAZPROM" for 2022. /
URL: https://www.gazprom.ru/f/posts/56/691615/gazprom-environmental-report-2022-ru.pdf

[13] PJSC «MMC NORILSK NICKEL» Sustainability Report 2022. / URL: https://www.nornickel.ru/upload/iblock/10d/iqtmhfjmpv35e3ai0untm8xuftr47ifz/NorNickel_CSR2022_RUS_2.08.pdf

[14] ESG-transparency: disclose cannot be closed. «Expert RA» Rating Agency. / URL: https://raexpert.ru/researches/sus_dev/esg_2022/