ORIGINAL PAPER

DOI: 10.26794/2308-944X-2022-10-4-55-66
UDC 336.767(045)
JEL G11, G31, M14

Socially Responsible Investment in the Russian Stock Market

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ABSTRACT

One of the major elements of the sustainable development policies is the socially responsible investing (SRI), also called ESG investing (environmental, social, and corporate governance) or green investing. The key feature of SRI (ESG investments), which distinguishes it from the other forms of raising capital, is the focus on priority financing of environmental and social projects providing long-term positive effects and consequences for society (the wellbeing of an individual and the nation), the environment (including climate), regional and global economies. The research **aims** to study ESG-investments' influence on the Russian economy, specifically, the exchange-traded funds (ETF) industry. The research **methodology** includes structuring, comparison, generalization, economic analysis, induction, deduction and synthesis. The **results** of include analysis of the foundations of socially responsible investments, the concepts, and factors of ESG investments. Also, the global and Russian ESG markets are explored, including ESG-exchange traded funds industry, its features, structure and trends. Based on the research, the author **concludes** that the Russian market for ESG instruments is only developing. However, interest in this category of financial instruments is growing among investors, which is facilitated by the policy pursued by the national regulator (the Bank of Russia), which encourages the introduction of ESG practices by Russian issuers of securities.

Keywords: sustainable development; ESG principles; ESG factors; ESG concept; Principles for responsible investment

For citation: **Kuksov A.S. Socially responsible investment in the Russian stock market. *Review of Business and Economics Studies.* 2022;10(4):55-66. DOI: 10.26794/2308-944X-2022-10-4-55-66**

ОРИГИНАЛЬНАЯ СТАТЬЯ

Социально ответственное инвестирование на российском фондовом рынке

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АННОТАЦИЯ

Одним из основных элементов политики устойчивого развития является социально ответственное инвестирование (SRI), также называемое ESG-инвестированием (экологическое, социальное и корпоративное управление) или зеленым инвестированием. Ключевой особенностью SRI (ESG-инвестиций), отличающей ее от других форм привлечения капитала, является направленность на приоритетное финансирование экологических и социальных проектов, обеспечивающих долгосрочные положительные эффекты и последствия для общества (благополучие личности и общества), окружающей среды (включая климат), региональной и глобальной экономики. **Цель** исследования — изучение влияния ESG-инвестиций на российскую экономику, в частности на индустрию биржевых фондов (ETF). **Методология** исследования включает структурирование, сравнение, обобщение, экономический анализ, индукцию, дедукцию и синтез. **Результаты** работы включают анализ основ социально ответственных инвестиций, концепций и факторов ESG-инвестиций. Также исследуется мировой и российский рынок ESG, в том числе индустрия биржевых ESG-фондов, ее особенности, структура и тенденции. На основании проведенного исследования автор делает **вывод**, что российский рынок ESG-инструментов только начинает развиваться. Однако интерес к данной категории финансовых инструментов среди инвесторов растет, чему способствует проводимая национальным регулятором (Банк России) политика, поощряющая внедрение практик ESG российскими эмитентами ценных бумаг.

Ключевые слова: инвестиции; социально ответственное инвестирование; устойчивое развитие; ESG-факторы; фондовый рынок

Для цитирования: **Куксов А.С. Социально ответственное инвестирование на российском фондовом рынке. *Review of Business and Economics Studies*. 2022;10(4):55-66. DOI: 10.26794/2308-944X-2022-10-4-55-66**

Introduction

Countries worldwide had implemented sustainable fiscal policies since 2015, when the Paris Climate Agreement was adopted,[1] and the United Nations formulated Sustainable Development Goals.[2] One of the key elements of the abovementioned policies is the so-called socially responsible investment (SRI), also called ESG investment (environmental, social, and corporate governance) or "green investments" — the phenomenon that goes back to the early-1960s, when the idea of the investment in "green" and "social" instruments appeared. The key feature of SRI (ESG investments), which distinguishes it from the other forms of raising capital, is the focus on priority financing of environmental, social and management projects, as their creation implies the emergence of long-term positive effects and consequences for society (the wellbeing of an individual and the nation), the environment (including climate), regional and global economies.

Despite the increasing attention to the environmental agenda and ESG investing in particular, the depth of ESG investing varies across different countries. At the same time, this agenda is undoubtedly relevant and plays an important role in the further development of both regional and global financial markets.

The Russian market of ESG investment vehicles is very young and at the stage of development. "Green investing" is a practice that came to Russia just a few years ago. Thus, the Moscow Exchange (MOEX) launched the first Russian ESG indices only in 2019 (e.g., the Moscow Exchange Index — RSPP Responsibility and Openness and the Moscow Exchange Index — RSPP Vector of Sustainable Development. Besides, later in 2020, the first exchange-traded investment funds for responsible investment appeared on the Russian market.[3] The list of such instruments will expand in the coming years. Nevertheless, the Russian market has several significant features, and being an emerging market (concerning ESG agenda) may and already faces significant limitations.

Taking into account the significance of the idea behind socially responsible investments, as well as the events of the last two years (such as the COVID-19 pandemic), that spurred investors' interest in the ESG agenda worldwide (including Russia), we believe that it's necessary to study the issue of ESG practice integration into the Russian economy.

The purpose of this research is to conduct a study devoted to the issue of ESG-investments' influence on the Russian economy, specifically, the exchange-traded funds (ETF) industry.

The objectives of the paper are:

1. The review of the foundations of socially responsible investments, the concepts, and factors of ESG-investments.
2. The analysis of the global ESG market (ESG-exchange traded funds (ETF) industry), its features, structure and trends.

The object of the research is the Russian BPIFs (Russian exchange-traded mutual funds) and ETFs investing in ESG instruments; the subject of research is the performance of these funds.

The theoretical basis of the research is the normative documents and official statistical materials of Central Banks and Supervisors Network for Greening the Financial System, the Bank of Russia, and publications of Russian and foreign authors.

A review of socially responsible investments in the securities market

In recent years, the world community has been undergoing an ideological transformation of business processes, largely due to the desire of participants in economic relations (in particular,

[1] Paris Agreement (The United Nations). URL: https://www.un.org/en/climatechange/paris-agreement (accessed on 15.04.2022).

[2] The Sustainable Development Goals of the United Nations. URL: www.un.org/sustainabledevelopment/sustainable-development-goals (accessed on 10.04.2022).

[3] Moscow Stock Exchange starts trading BPIFs for Sustainability Index. URL: https://www.moex.com/n30298 (accessed on 15.04.2022).

government agencies, institutional and private investors) to give preference to investment projects that meet the principles of the so-called socially responsible investment (SRI), which is also often referred to as ESG investing.

Even though SRI as an investment direction appeared in the 1960s[4] (it was then that the idea of preferential financing of investment projects pursuing long-term benefits for society was first voiced), there is still no unambiguous interpretation of the term SRI in international practice. SRI, ESG tools, "green" investments are not clearly delineated.

A significant number of research papers have been written on the topic of environmental investment in recent years. It is obvious that the trigger for such studies was the adoption of environmental doctrines by developed countries in the 2000s and their course towards the decarbonization of the economy, enshrined in the Paris Climate Agreement.[5] Most of these studies were carried out in the EU countries and the USA (both by national institutions and large international funds and organizations authorized to conduct such studies — for example, PRI, CBI, S&P, PwC, Bloomberg, MSCI). At the same time, researchers most often focus on the practical aspects of socially responsible investment and green finance. Most of these studies do not provide an interpretation of the term "socially responsible investment", a distinction between the concepts of SRI and "green financing", but only disclose a list of criteria that business projects must meet in order to be considered SRI or ESG.[6]

The UN first presented the basic principles of socially responsible investment in 2006; later, they were enshrined in the UN Sustainable Development Goals (Sustainable Development Goals, SDGs).[7] The Principles for Responsible Investment (RPI) International Association, one of the key international organizations developing methodological materials on ESG investment and green finance, identified six basic SRI principles in 2006[8]:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

The above principles of SRI reflect the essence and key characteristics of ESG investments. Nevertheless, later, the above list of principles was significantly expanded. In particular, it included the PRI initiative to include ESG factors in the assessment of the credit risk of companies issuing securities and assigning ratings in the SRI area (The ESG in Credit Risk and Ratings Initiative, 2016).[9] Later (in 2020), PRI took the initiative to require member organizations to disclose information about their actions in the field of climate change risk management.[10] Thus, the regulation of the global market for ESG tools is becoming more complicated and synchronized.

While foreign authors focus more on describing and studying the practical side of the issues, Russian authors pay more attention to interpreting the theoretical foundations of social investment. This is largely due to the fact that socially responsible investment is still a new practice for Russia, and the SRI industry requires the development, among other things, of legislative and regulatory.

Russian researchers define the social responsibility of business (which underlies SRI) as "an institutional form of forced adaptation of corporations to the growing demands of civil society and regulators, marketing technologies to strengthen the brand image" [1].

[4] Magdalena Ziolo Finance and Sustainable Development: Designing Sustainable Financial Systems (Routledge International Studies in Money and Banking). 2020. P. 290.

[5] Paris Agreement (The United Nations). URL: https://www.un.org/en/climatechange/paris-agreement (accessed on 15.04.2022).

[6] Responsible Investment Strategies (EUROSIF). URL: www.eurosif.org/responsible-investment-strategies (accessed on 27.04.2022).

[7] The Sustainable Development Goals of the United Nations. URL: www.un.org/sustainabledevelopment/sustainable-development-goals/ (accessed on 10.04.2022).

[8] PRI. What are the Principles for Responsible Investment? URL: https://www.unpri.org/about-us/what-are-the-principles-for-responsible-investment (accessed on 02.05.2022).

[9] PRI. The ESG in Credit Risk and Ratings Initiative aims to enhance the transparent and systematic integration of ESG factors in credit risk analysis. URL: https://www.unpri.org/investment-tools/fixed-income/credit-risk-and-ratings (accessed on 02.05.2022).

[10] Task Force on Climate-related Financial Disclosures (TCFD). Climate change presents financial risk to the global economy. URL: https://www.fsb-tcfd.org/ (accessed on 02.05.2022).

A. Andreev defines socially responsible investment as a set of targeted measures aimed at solving the socio-economic problems of both the organization and the region of its presence (i.e., the implementation of its economic activities) by investing in business processes that provide long-term benefit to both the organization and society [2]. At the same time, the author rightly notes that the return on invested capital is not a prerequisite for social investment, i.e., it is not the primary task of this kind of investment in the traditional sense of investment theory. In this case, it means that the level of fulfillment of SRI goals is determined to a greater extent not by quantitative indicators (in terms of investment: the risk and profitability of the financial portfolio) but by a list of qualitative characteristics of a business project — the so-called «social effects» (for example, improving the quality reproduction of labor resources, demographic indicators, employment indicators, provision of the population with social benefits, etc.).

K.B. Bakhtareva defines socially responsible investment as an investment process in which the investor's responsibility for the consequences of his investment is manifested in the voluntary and conscious choice of investment criteria. At the same time, the influence of the investor's investment choice extends to society, the environment and its development, and to the investor himself as a direct participant in the investment process [3].

In addition, there are several other functions of socially responsible investment (ESG investment) which determine the essence of the SRI concept:

1. The redistributive function of SRI manifests itself in the investment essence of SRI. ESG investment is the redistribution of capital in cash from economic entities that have this capital in excess at a given time to economic entities that at the same time need cash. At the same time, the potential impact of SRI on the development of social sectors of the economy in the long term plays an important role in the redistribution of capital in this case.

2. Regulatory function: the implementation of SRI investments has an indirect impact on the processes of capital reproduction, their growth rates, i.e., on the development of economic sectors, the speed of implementation of the achievements of scientific and technological progress, the social well-being of the population, the state of the environment and other social aspects.

3. Stimulating function. This function is manifested by stimulating investors (i.e., shareholders) to develop their business by introducing the most advanced business process practices, encouraging the company to use modern, safe technologies that have the least impact on the environment while satisfying the interests of both company owners, investors, as well as the interests of its employees and other stakeholders [4].

In a narrower sense, ESG investments can be attributed to selecting securities of companies that operate according to the ESG principles. In this case, the main criterion for selecting securities of companies that meet the ESG criteria will be not so much risk and return indicators but the actions of securities issuers in the field of ecology, company management and social infrastructure development [5]. Thus, it becomes obvious that from the point of view of the followers of the concept of responsible investment, the highest value is not the primary growth in the welfare of the company's owners (as enshrined in the traditional concept of corporate finance Value Based Management), but an orientation towards meeting the interests of society. In other words, an investor investing in ESG projects voluntarily agrees that the profitability of such projects may be lower than similar business projects that do not consider ESG factors.

The emergence of socially responsible investment and capital investment based on ESG principles is undoubtedly one of the key factors that can increase the level of competition in the financial market. Such an effect is achieved by increasing the investment attractiveness of companies operating based on ESG criteria, i.e., by increasing demand for the securities of these issuers, including by assigning ESG ratings to them. The world practice of using ratings, including ESG ratings, demonstrates that such instruments have a significant impact on the assessment of the company's market value and its market capitalization.

This is further supported by the fact that ESG investing has an important positive social impact. As M. Oehmke and M.M. Opp noted in their study, socially responsible investment enhances the interaction between economic agents and prevents the occurrence of coordination failures; moreover, it encourages firms to invest in new "green" technologies, apply modern business models to meet the social order [6].

From the point of view of regulating investment practices that meet the ESG criteria, responsible investment also implies responsible management of the company issuing securities. In this case, we mean precisely the need for the company's shareholders and its institutional investors to exercise their corporate rights, as well as the need for public disclosure of information (including reporting) on the company's adherence to ESG principles. At the same time, since following the ESG principles is in most jurisdictions, including Russia, a voluntary initiative of the company, international and national regulators do not give instructions on the disclosure of ESG reporting (reporting structure, frequency of its submission and other parameters mandatory for issuers of securities), but only recommendations for doing business in accordance with the ESG criteria and the practice of existing regulatory and legal regulation.

Thus, in Russia, the institutional infrastructure for doing business is just being created, considering the principles of socially responsible investment. There are currently no mandatory requirements for issuers to conduct business, disclose ESG reports, and any other obligations of companies related to activities in the field of socially responsible investment in Russia now. Nevertheless, while creating a regulatory infrastructure for companies operating by ESG principles, in 2020, the Bank of Russia (the national regulator of the financial market) provided explanations and recommendations to participants in the Russian financial market on implementing the principles of responsible investment. In its clarifications, the Bank of Russia refers to the international experience in SRI regulation and the G20/OECD Principles of Corporate Governance, fixed at the level of the G20 countries, adopted by the Council of the Organization for Economic Cooperation and Development in 2015.[11]

It is worth noting that in recent years the Codes of Good Corporate Governance (in international practice, they are called the Stewardship Code) have been widely used in international practice. These codes are mainly used in countries with a high level of corporate governance development (mainly countries with a market-based financial system, for example, the USA and Great Britain) and countries with a highly developed investor protection system — the EU countries, primarily Germany and France.[12] As we know, corporate governance codes are mostly voluntary, contain a set of market best-practices, as well as recommendations regarding the participation of institutional investors in the management of the company and their role in ensuring that the company fulfills its obligations in the field of ESG investment, which it undertakes voluntarily.

An important role in this aspect is influenced not so much by the voice of the investor (in terms of corporate governance), but by his performance of "supervisory" functions, for example, monitoring the most significant aspects of the company's activities, active interaction with other investors to achieve their common goal, including in the area of ESG — i.e., sustainable development of the company (increasing its market capitalization and fulfilling the social order for "ESG-services"), selection of asset managers, consultants and other persons whose services can contribute to the development of the company, maximizing its market value, implementing activities in accordance with the principles of ESG investment. By the latter, we mean, among other things, the need to consider risks when choosing objects for investment, because they are inevitably associated with sustainable development factors — environmental, social, as well as corporate governance factors. Nevertheless, taking these factors into account does not mean narrowing down the list of investment objects but mainly applying the practices of financial modeling, fundamental analysis, and a risk-based approach in order not to avoid but to manage these risks and increase the company's return on investment in the long term.

Socially responsible investment practices are new for the Russian market, the regulator and investors. Nevertheless, considering the trends in the global financial market, including ESG investment, which has become an integral part of the financial markets of developed countries, the Bank of Russia emphasizes the importance and significance of promoting the principles of SRI in Russia and starting from 2019–2020 pursues a policy that encourages the development of socially responsible investment in our country.[13]

[11] G20/OECD Principles of Corporate Governance. URL: https://www.oecd.org/corporate/principles-corporate-governance/ (accessed on 15.04.2022).

[12] FRC. The UK Stewardship Code 2020. URL: //www.frc.org.uk/getattachment/5aae591d-d9d3–4cf4–814a-d14e156a1d87/Stewardship-Code_Final2.pdf (accessed on 15.04.2022).

[13] The concept of organizing a methodological system in Russia for the development of green financial instruments and

The impact of ESG investments on global and regional stock markets

Government and business leaders are under increasing pressure to improve their ESG abilities and incorporate sustainability into their policy and planning efforts. In the face of the rising economic effect of climate change, they will include adaptation and resilience measures in their investment plans.

New laws and reporting requirements will necessitate more dependable company data. While many big firms will adopt sustainability targets and disclose ESG-related data in 2021, investors, regulators, and the general public will be pay greater attention to corporate sustainability initiatives, which they will label as «greenwashing.» Much of this criticism stems from concerns that businesses may use sustainability-related disclosure and labelling of products and services as a marketing tool to look more engaged in these issues than they are.

Environmental variables have consolidated consensus on important indicators and reporting methods quicker than social factors. However, by 2023, there may be a stronger convergence of the data, metrics, and reporting standards most important to social concerns, as well as a growing desire for metrics that evaluate effect rather than inputs.

The difficulty for governments and businesses will be translating zero net income commitments into short-term actions. The number of countries and significant corporations that have established a target of attaining zero emissions by 2050 has quickly increased since 2021. However, these pledges frequently lacked intermediate emission reduction goals or plans to reduce indirect emissions from the supply chain. We predict that by the end of 2022, shareholders and other stakeholders will be putting more pressure on these companies to produce specific short-term strategies and take action to address emissions across the whole value chain.

According to a 2018 UN Intergovernmental Panel on Climate Change assessment, attaining net zero emissions globally by 2050 is vital to avoiding some of climate change's worst impacts. The IPCC released a high-profile climate assessment in 2021, dubbed «humanity's red code» by the UN Secretary-General. In 2022, the IPCC will release new findings that may reshape how rapidly the world needs to act to stay on track to keep global warming to 1.5 degrees Celsius[14] over pre-industrial levels this century.

Investors will expect more than long-term climate pledges at such high rates. Governments and businesses will be required to offer accurate, attainable short-term benchmarks for decarbonization. Beyond the current focus on lowering emissions, the attention will shift to how enterprises handle physical climate hazards, including the presence and/or effectiveness of adaptation and resilience planning. These expectations will help transform the market's image of greenwashing by holding companies accountable for their pledges.

Transition strategies for climate change will increasingly address social concerns. Despite hopes that governments and businesses will make great progress toward reaching their climate obligations by 2022, they will do so in an economic and geopolitical environment marked by inflationary tendencies, increased energy costs, and tighter monetary policy. These changes will strain on the climate agenda and highlight the need to manage the transition's social consequences.

In the financial services business, climate stress assessments will become increasingly significant. Investor pressure on non-financial firms, particularly in the energy industry, has historically been focused on climate change. However, large financial institutions and governments are starting to see the long-term threat this poses to financial stability. They also realize the importance of finance in aiding the transition to low-carbon technology and making the economy climate resilient.

Central banks are increasingly beginning to add climate risk as a stress testing component for banks and insurers, building on the work of the Greening Financial System (NGFS) Network.[15] Banks must strengthen their evaluation of their exposure to both climate and physical risks in order to effectively manage them, according to the European Central Bank General Economic Climate Stress testing in 2021.

The Federal Reserve of the United States has considered the implications of climate-related risks for financial institutions and the financial system, describing scenario analysis as "a potentially essential analytical tool for this purpose." China, too, has been looking for methods to include climate

responsible investment projects. URL: https://cbr.ru/Content/Document/File/84163/press_04102019.pdf (accessed on 15.04.2022).

[14] The global response to warming. URL: https://www.ipcc.ch/sr15/

[15] NGFS. URL: https://www.ngfs.net/en

change risk in financial stress testing. Much of the work on climate stress testing has been done collaboratively by central banks throughout the world, and this work is expected to continue beyond 2022.

Furthermore, firms will be required to recognize legitimate human rights monitoring initiatives at higher levels in the supply chain if continuous action in the US and other important markets to prohibit imports based on forced labor in supply chains. This will apply to raw materials and will be valid outside of tier 1 suppliers.

The discussion over whether or not to invest will heat up. More significant asset owners, asset managers, and banks have adopted negative review tactics in 2021, which entail excluding or selling enterprises with poor ESG standards or high ESG risk exposure. This strategy has been chiefly used by fossil fuel, other high-carbon-intensive enterprises, and organizations facing acute and chronic physical climate concerns. As financial services businesses aim to develop Paris-focused investment and loan portfolios, we predict negative scrutiny to become more widespread in 2022, particularly to decarbonize investment and lending portfolios, further enhancing the relevance of ESG for credit.

Exclusion restrictions can directly reduce the carbon footprint of loans or investment portfolios, but this strategy has downsides. According to engagement advocates, breaking links with firms through sale or exclusion is not conducive to reform and may result in the sale of these shares to investors who are less concerned about ESG concerns. As a result, proponents of engagement seek to utilize their assets to affect change by engaging with firms on important ESG issues like climate change and supply chain labor conditions.

Lenders and investors will be obliged to justify their judgments, whether they use a negative review or a participative method. They will also have to examine and share the precise results of their selected technique in a credible manner.

The reality is that ESG investments are on the rise. ESG investing trends have gained traction in recent years, with investments in sustainability increasing by 456 percent between 2005 and 2020.[16] Old financial rules give way to more ethical, sustainable, and responsible investments.

Here are a few of the key ESG investment trends.

[16] World investment report. URL: https://unctad.org/system/files/official-document/wir2021_en.pdf

Fight against climate change.

Climate change and the elements that influence global temperature have become major problems for businesses and investors as a result of the Paris Agreement. ESG investment is expected in the industry as the Biden administration works to implement the Paris Agreement. In 2015, the Paris Agreement was signed. The pact was designed to be legally binding on various countries throughout the world in order to help limit global climate change to two degrees Celsius per year.

However, five years of policy compliance reveals that just 16 percent of IMI firms are following the standards intended to meet the global temperature target of 2 degrees Celsius, according to last year's surveys.

In addition, the Paris Agreement established a second, more difficult goal of 1.5 degrees Celsius every year.[17] Only 5% of IMI firms in the world have accomplished this. While some may dismiss these figures, the number of investors willing to tackle climate change is increasing yearly. We may expect more corporations to follow the ESG trend and open up additional investment trends for sustainability, in addition to the increasing pressure from the government each year.

Biodiversity restoration.

People are finally starting to take biodiversity seriously when it comes to long-term investment trends. Similarly, the global biodiversity issue has piqued the interest of policymakers and investors due to its negative consequences for our ecology. Depending on their location and business, companies will be expected to prepare extensive portfolios of their effect on biodiversity. While a result, policymakers will be better able to establish a biodiversity recovery strategy as they work to address climate threats. Investors could anticipate more corporations exhibiting their whole portfolios to demonstrate their real engagement with areas of high variety value if this trend of investing in ESG continues. Take the agriculture business as an example. The food sector relies on biodiversity for good soil and seed protection. However, the industry is responsible for about 80% of global deforestation,[18]

[17] The Paris Agreement. URL: https://unctad.org/system/files/official-document/wir2021_en.pdf

[18] Guardian sustainable business. URL: https://www.theguardian.com/sustainable-business/2017/jul/10/100-fossil-fuel-companies-investors-responsible-71-global-emissions-cdp-study-climate-change

which leads to the extinction of thousands of species and has a negative impact on biodiversity. Raising public knowledge of such facts and numbers will almost certainly result in favorable improvements in the major investment sectors in the near future, which investors should monitor.

Giving more attention to mental health.

The global epidemic has caused a year of messed-up schedules and perplexing reality. Long-term curfews and social segregation policies have altered our perceptions of city life like never before. Naturally, the number of reported instances of despair and anxiety increased dramatically. While 64 percent of Americans had typical indicators of despair, 57 percent experienced crippling anxiety. This has brought us to a depressing conclusion. As a result of the worldwide pandemic's impacts, mental health became yet another disease that the globe had to contend with.

Some companies are already tackling this problem by promoting flexible working hours and performance-based employment structures. This can free up time for employees to engage in social events, participate in recreational activities, and pursue their interests and passions. Businesses that effectively employ these principles will witness increased production in the future, resulting in better returns for investors. On the other hand, companies that remain silent on these concerns may suffer mass burnout and significant financial losses soon.

Elimination of social inequality.

Employees worldwide have had enough of racism, gender inequity, and a lack of standards in the workplace. This may have a direct impact on the investors who put their money into firms. Companies will have to concentrate on how they treat their employees and preserve connections with their supply chains in the coming years as the epidemic draws attention to operational difficulties in the workplace.

Other major difficulties, including inequality, uneven pay ratios, and the executive pay gap, have also surfaced in recent years. Investors must guarantee that their portfolio enterprises contribute positively to these societal concerns as people grow more aware of their rights. Companies that successfully bridge the social divide between their employees and give required advantages to their local supplier chains will see a significant boost in their stock values.

Conversely, companies that fail to do so may suffer dire consequences such as labor strikes, litigation, and societal boycotts. This will result in an immediate depreciation of inventory, as well as a reduction in creativity, productivity, and employee motivation in the long run.

Transition to a variety of food options.

It's no secret that millennials and Gen Z customers have forced food companies to reinvent themselves to stay relevant. Consumers have awakened to the rising need for vegan choices and plant-based protein alternatives, spurring exponential development in both categories. Impossible Foods, a well-known plant-based meat replacement firm, is a good example.

The firm distributes its products in more than 11,000 retail locations throughout the US,[19] since the epidemic, along with lockdowns and physical inactivity, prompted consumers to seek healthier eating alternatives. This is a tremendous increase in demand, over 77 times that seen in retailers prior to the epidemic. Similarly, well-known businesses like Taco Bell and McDonald's are taking measures to offer a diverse menu to customers.

Revolution in the fashion industry.

The fashion industry's sustainability tendencies have likely been the most startling ESG investing developments in recent years. When it comes to ESG problems, a sector that prides itself on developing new trends and introducing innovation to seasonal clothes has traditionally trailed behind.

However, Vogue forecasts that after the 2019 pandemic, sustainable fashion may see the light of day. Secondhand clothes retailers have already seen a big boost in sales this year. The used clothes industry has risen 21 times faster than the new apparel market in the last two years. Specifically, because of ESG's ongoing fashion trend, firms like Patagonia, Thredup, and Poshmark are likely to boost their net value by billions in the future years.

Intersectoral growth trends.

The future trends in ESG investment demonstrate that fixing today's challenges is not a one-person show. Instead, if we are to achieve our global society goals, businesses must collaborate and assist one another.

Consider the United Kingdom's objective of having wind power in every home by the end of this

[19] Walmart Business Model. URL: https://businessmodelanalyst.com/walmart-business-model/

decade. This does not imply that the government must unify energy corporations on a single front in order to achieve this aim. Instead, several industries, such as real estate, construction, and infrastructure, will need to collaborate to achieve this. This entire concept of businesses banding together for a good cause makes brands more relevant to today's consumers and helps them prosper in the face of ESG investing trends. Consider Dyson, which began producing ventilators when the demand emerged during the epidemic. In the next years, such cross-industry support systems will likely grow and create large financial gains.

The ESG investments in Russia: the investment practices

Russian investors, according to our observations, consider ESG concerns while analyzing investments. Simultaneously, they underlined market participants' need for more awareness of the nuances of the ESG integration process, which is sometimes linked with the approach of removing particular industries, firms, and projects from the portfolio. Investors believe that corporate governance issues are critical because they directly influence profitability and, eventually, dividend policy. However, few individuals are aware of the influence that environmental and social factors have on a company's financial performance. Some Russian investors started receiving inquiries from their overseas clients about incorporating ESG elements into their decision-making process a year ago. The greatest hurdle to the adoption of the ESG integration approach is a lack of consumer engagement. There is common understanding that its implementation in Russia should be coordinated centrally with regulatory assistance.

Banks represent market players that can influence the situation and increase the interest of investors.

ESG banking is a concept based on environmental, social, and governance responsibilities to current and future generations, as well as endeavors to accomplish the United Nations Sustainable Development Goals and other socially meaningful results.

ESG Banking[20]: sustainability management is a difficult banking activity that necessitates the use of both financial and human resources. Furthermore, there are better strategies than having a few people responsible for the organization's sustainability agenda while the rest of the employees and management perform their business as usual. Sustainable development goals must be entrenched in an organization's everyday actions in all departments, regardless of its resources (including through sustainable KPIs). The Chief Sustainability Officer's primary responsibility is to integrate and manage all departments' sustainability initiatives, as well as to create appropriate knowledge among the board of directors and executives. Sustainability management, in this sense, refers to examining ESG issues critical to a bank's strategic and operational decisions. A consistent and clear approach is essential to ensure sound risk management and a better-informed strategy. Individual banks' corporate governance and operational management must adapt to the further expansion of ESG banking by training and empowering current staff. It is also recommended to establish distinct management structures and divisions to address ESG concerns in various sectors. It is critical that banks consider establishing a Chief Sustainability Officer (CSO) post. Several banks have chosen to employ a CSO with a suitable authority. However, the majority of the banks intend to reconsider or increase the roles of other CEOs. Russian banks manage their sustainability efforts through the following:

- ESG Board Committees
- Committees for the execution of long-term plans for integrating the ESG strategy
- Policy Development Committees to build an ESG strategy
- Sustainable Development Departments
- Working groups to enhance internal procedures and execute the ESG strategy

ESG banking's key objective is good ESG risk management. Because of the significant resources necessary to build these skills, many banks that are new to the industry make only minor changes to existing risk management processes. Due to the strategic nature of ESG risks, it appears that incorporating them into the classic "three lines of defense" concept is the best option. However, due to a lack of knowledge, resources, and new ideas, this strategy is not widely used in the Russian banking industry.

Because ESG banking is still in its early stages in Russia, banks prefer to concentrate on producing sustainability reports that mostly address social and environmental efforts.

[20] ESG banking trends. URL: https://flow.db.com/more/esg/eight-esg-trends-to-watch-in-2022

ESG investment prospects in Russia

Our study of the data of Russian exchange-traded investment funds that fit the definition of ESG-oriented showed that the impact of ESG factors on the value of securities of such companies is insignificant.

Five significant variables that favor and limit the implementation of ESG integration methods were identified. The main barriers to ESG integration in Russia are a lack of comparable and historical data on the environmental and social aspects of companies' activities, market structure limitations, a lack of understanding of ESG aspects and the specifics of their integration into investment processes, and investors' perceptions that the potential for obtaining positive returns is insufficient.

Another barrier is a lack of company and investing culture, particularly in respect to short-term investments. Often, investors are primarily concerned with portfolio returns. They do not consider the social effect of their investments or aim to build value-added portfolio firms for future generations. Short-term investment in the Russian stock and bond markets is said to be supported in part by Western money. Foreign investors in Russian securities are aware of the dangers, but they pay little attention to the social consequences of their investments. They exclusively look at government risks.

The low level of customer interest may be essential obstacle to the development of ESG integration practices in Russia. At the same time, interest from clients is also the one of the main factors contributing to the promotion of this approach. The increase in demand from clients can encourage Russian investors to more actively implement the practice of ESG integration.

One of the most important motivations for the growth of the idea of ESG investing in Russia, as in most of the nations, is investors' desire for more effective risk management. Stakeholders also believe that to promote this concept in Russia, a centralized strategy with regulatory support is required. However, it's often impossible to tell which variable is more important: customer demand or government regulation. However, in most of these circumstances, the customer's best interests remain paramount.

Despite the surge of 2020, Russia will appear to be a laggard in 2021–2022 compared to international leaders. Both in terms of volume and intended use diversity. The absence of drivers for ESG investment growth in the Russian market is due to the dominance of local investors and their lack of concern for ESG in the investment process.

In turn, PJSC Sberbank, which has set the goal of becoming a driver of the country's ESG transformation, a centre of expertise, and a change agent, suggests considering the possibility of providing state guarantees and subsidizing the rate on ESG loans, facilitating the issuance of loans to companies with a good ESG rating, and lowering the requirements for banks to create reserves while taking the borrower's rating into account. Gazprombank suggests that assistance measures be considered in terms of taxation, bank capital requirements, and institutional investor portfolios.

Without question, Russia's sustainable bond market will continue to expand and become more sophisticated in terms of intended use, but only as a result of prominent enterprises' actions and responsibilities. Until now, the bond issuer market has been dominated by a few firms. Nonetheless, significant firms with ESG ratings and validated bonds from foreign verifiers are showing a lot of interest. The key driving force behind the ESG transformation will be banks. Sberbank, Gazprombank, Sovcombank, and VTB are among the banks that have already jumped on board the ESG train. Management corporations will join them, helping to build a class of responsible investors interested in both profit and ethical investing.

It is crucial to highlight that if the ESG transformation of banks and institutional investors advances at a rapid pace, the rating will likely become a condition for employment and loan approval, similar to credit ratings, which are also employed in sectors where such regulations are not present. Participation in tenders is an example of this.

Currently, the objective is to adapt the best international methods to green and social investment legislation to Russian realities. In order to account for national specifics, a thoughtful adaptation of norms and regulations will be required.

As a result, the ESG focus may soon have a global impact on the notion of providing project finance for new facilities in Russia. Of course, a quick change is unlikely, but one has begun, and enterprises who fail to reorient themselves to ESG principles in a timely and comprehensive manner, as recognized by the global and all-Russian sustainable development agenda, may find their investment processes becoming more problematic. Currently, the market requires consistent methods in the ESG project evaluation system. They will make it simpler for players in the rising market of sustainable brands and goods to use development tools, discover "green" supplier chains, and acquire "green" financing by making it feasible to "green" company.

The political and sanctions scenario will determine the future of IGI investment. Unfortunately, if sanctions are placed on the Russian financial industry, we should not expect much improvement in this area: our financial sector will be shut off from global markets, which means it would have to exist on its own, unable to borrow innovative international ESG investing practices. If no sanctions are imposed and Russian financial businesses are permitted to trade on international markets, they will begin to establish the practice of incorporating ESG into the investing process. The positive example of international rivals and the sharing of expertise will help with this. In reality, everything hinges on our continued participation in the global economy.

As a result, it's worth emphasizing that the ESG agenda has only lately been prominent in corporate circles, as well as among members of the public and government bodies. Although the contribution of ESG strategy to company efficiency is minor in the complicated concept of «quality of life,» it nevertheless has a beneficial impact. And you can see the good dynamics now, as well as the availability of all the criteria for its effective expansion. According to the report, the potential and prospects for Russian enterprises using an ESG strategy are currently unknown.

Nonetheless, when discussing the positive growth and future possibilities, the experts agreed that more ESG principles must be implemented in Russia in order to keep up with the development of technology, society, and the preservation of socially significant trends. If it was formerly thought that the organization's sole obligation was to pay taxes and leave everything else to the state, today's leaders are seeking to be called and, most significantly, to be socially conscious.

Conclusion

In the framework of this work, we have considered the key factors that determine the essence of ESG investments, studied the approaches of Russian and foreign authors to the definition of the concept of SRI, highlighted the basic principles according to which investments can be classified as "green"/SRI/ESG.

We came to a conclusion that, in international practice, the concepts of SRI and ESG investments are almost identical in essence: one way or another, investments related to SRI should be purposeful, aimed at financing socially significant sectors of the economy, contribute to solving environmental problems at the level of the state, regions, and a single company. At the same time, it is far from necessary for an instrument/company to meet all ESG criteria at once in order to be recognized as such. In particular, ESG practices may include, among other things, strategies that companies choose based on their declared commitment to one or more ESG criteria, whether it be minimizing the company's negative impact on the environment and climate, or, for example, focusing on the implementation of "transparent" principles of corporate governance. Also, ESG practice may include reviewing companies in certain sectors or companies that, in the opinion of portfolio managers, are performing poorly in relation to the management of ESG risks and opportunities.

Our analysis of the international market for ESG tools has clearly demonstrated that over the past 30 years, the popularity of SRI in the world has been growing significantly, both in the global and regional markets for ESG tools. As the market recognizes growing climate and social risks, capital is being redirected, and priority funding is being given to companies that offer solutions to these kinds of problems. Moreover, such global events as, for example, the COVID-19 pandemic, only intensified this trend, which was especially pronounced in the pharmaceutical field and significantly affected the rapid development of the bio-industry during the pandemic.

At the same time, it is worth paying special attention to the growing demand for ESG instruments both among retail investors and institutional investors. In particular, sales of European ESG funds during the COVID-19 pandemic outperformed sales of "traditional" mutual funds that do not qualify as socially responsible investment. It should be noted that these ETFs focused on the implementation of environmental, social and corporate principles (ESG Funds), take into account a wide range of factors that are consistent with their goals and strategies when choosing investments. So, they may include ESG companies, which directly have a positive impact on the recognition of such a fund as an ESG-oriented one, which means that it increases the demand for its securities among investors. The latter is of particular importance in the mutual funds and ETF market, since these instruments of the collective investment industry are the basis of the redistribution mechanism of market-based financial systems.

The Russian market of "green" financial instruments is very young and today is at the initial stages of its development. Statistics on the volume of funds raised during the placement of "green" instruments is extremely insignificant. Moreover, our market has significant factors hindering its development: there is still low interest in SRI on the part of private investors, a very limited practice of using ESG ratings (national and global). Moreover, it is especially worth noting that information about the compliance of the company/fund with the principles of responsible investment is often simply not available to a private investor. These data are scattered or not disclosed, which significantly complicates even a superficial analysis of ESG factors and their impact on the company's value.

We believe that ESG factors are most likely not taken into account when assessing the value of BPIF units, and, consequently, the securities of companies from which the investment fund portfolio is assembled.

Nevertheless, the Russian market for ESG instruments is only developing. However, interest in this category of financial instruments is growing among investors, which is facilitated, among other things, by the policy pursued by the national regulator (the Bank of Russia), which encourages the introduction of ESG practices by Russian issuers of securities.

Taking into account the events of the 2022, which undoubtedly had an extraordinary impact on the Russian economy, including the financial market, we note that the penetration of foreign ESG assets and ESG practices into the Russian market is unlikely in the near future. Nevertheless, we believe that this agenda, especially in the light of the implementation of Russian National Projects, which in their essence partly reflect the principles and values of socially responsible investment, does not lose its significance and relevance in Russia, which, in fact, determines the importance of further research in this area.

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Conflicts of Interest Statement: The author has no conflicts of interest to declare.

The article was submitted on 19.09.2022; revised on 15.11.2022 and accepted for publication on 23.12.2022. The author read and approved the final version of the manuscript.