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**CHALLENGES AND PROSPECTS FOR THE DEVELOPMENT OF
RESPONSIBLE INVESTMENT IN RUSSIA**

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Abstract

This article presents an analysis of challenges and prospects for the development of responsible investment in Russia. The authors give a wide summary of foreign experience in the field of the environmental component of responsible investment, as a necessary condition for a “green” economy transformation in a global perspective. Summarizing the results achieved in the part of responsible investments, including “green” investments in different countries of the world, the authors define the main tasks for the Russian economy and the necessary conditions for successful adaptation of foreign experience in Russian realities. The analysis of successful foreign experience allowed authors to formulate a number of the most important challenges for Russian regulators today: to approve the requirement for companies to disclose non-financial information; to assess the risk system for companies participating in the responsible investment process using the methodology proposed by the authors; to compile a rating of companies participating in the investment process based on non-financial information and the results of the risk system assessment; to popularize the results of responsible investment, in particular its environmental component through official information resources: mass media, Federal State Statistic service, publication of the annual thematic bulletin; to create a system of certification and verification of green bonds and their rating.

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1. Introduction

The transition to a “green” economy has been a global challenge over the past decade. According to the definition of the World Wide Fund for Nature, the “green” economy is an inclusive system characterized by efficient use of resources and minimal use of hydrocarbons, the growth of employment and incomes ensured by investments in reducing carbon dioxide emissions, energy efficiency and preventing further reduction of biodiversity (Ashwin Kumar et al., 2016).

One of the decisive factors of the “green” transformation of economy is a comprehensive evolution and development of responsible investment. The specific financial mechanism which provides effective implementation of responsible investment could be named ESG-finance system (ESG stands for: environmental, social and corporate governance (Ashwin Kumar et al., 2016).

One of the most important areas of responsible investment is the development and support of environmental projects: investments in renewable energy sources, energy-efficient solutions, green technologies, low-emission vehicles, water treatment, and increasing resource efficiency. This type of responsible investment is usually called “green” investment (Li, Tang, Wu, Zhang, & Lv, 2019).

The starting point for the active implementation of environmental projects in Russia was the announcement of the “Year of Ecology” in 2017. According to expert estimates, the growing volumes of the green economy in Russia in the next 20 years could be due to the following factors (RBC Capital Markets, 2017):

- The introduction of a carbon tax in accordance with the Paris Agreement of the UN Framework Convention (Nahman, Mahumani, & de Lange, 2016). The volume of tax revenues by 2020 in Russia may amount to 1 trillion rubles.

- The need to create the infrastructure of the waste processing industry by 2020 is estimated at 150 billion rubles.

- Improving of energy efficiency of housing and communal services requires about 100 billion euros in the next 20 years.

It’s also need to notice that in the 4th quarter of 2018 the Moscow Exchange hosted the placement of 4 issues of concession bonds in the amount of 7.1 billion rubles, among which the first issue of “green” bonds was made. “Green” bonds are the debt securities, which issue brings the issuer funds to invest in environmental and ecological projects as part of responsible investment (RBC Capital Markets, 2017). By the way, there are at least 7 unmarked, but in fact “green” bonds, which were placed to finance concession projects in utilities, transport and other fields (valuation of which is about 48.4 billion rubles).

2. Problem Statement

It’s very important to conduct a further study and improve the methods of developing investment attractiveness of companies implemented responsible investments, including an assessment of their financial risks associated with the transition to a “green” economy. It’s necessary to improve the theoretical and methodological base with the aim of working out practical recommendations for improving the efficiency of responsible investment in Russia both on the state and companies levels. The issue of state

support for the transition to a “green” economy in general and ESG-finance in particular, ensuring financial stability and investment attractiveness of companies working in this direction is especially acute.

3. Research Questions

Due to the fact that financial support for the transition to a “green” economy is primarily carried out through state support, it’s necessary to identify state regulators and their functions in the field of ESG-finance in Russia. Also, it’s still a research question what kind of methodology is to be used by Russian state regulators and commercial companies by means of responsible investment. To analyse challenges and prospects of development of the specific “green” financial instruments in Russia is vital for the following evolution of ESG-finance and responsible investment in Russia.

4. Purpose of the Study

Analysis of the successful international experience in the field of responsible investment. Detection of challenges and prospects of introduction of the successful international experience in the field of responsible investment in Russia. Revealing of the necessary conditions of such introduction.

5. Research Methods

5.1. The analysis of state regulators’ functions in the field of responsible investment

The main functions of regulators in relation to green investments within the framework of responsible investment in world practice were considered and grouped (Mörth, 2014):

- development and certification of innovative financial instruments aimed at financing responsible investments, for example, “green” bonds (Elliott & Zhang, 2019);
- information and analytical support for market participants (popularization of responsible investment through official information resources);
- streamlining the activities of financial market participants in order to develop responsible investment;
- development of national roadmaps in the field of responsible investment;
- work with relevant international standards (development of regulatory and methodological framework);
- work with other institutions (for example, stock exchanges, industry associations and other regulatory bodies) to coordinate efforts to support responsible investment (Yamahaki, 2019).

5.2. The assessment of the importance of non-financial information disclosure

As a result of the analytical and research work of the TEG (Technical Expert Group) created within the European Commission (European Commission, 2019), it was concluded that in international practice one of the key factors in choosing an investment object is the completeness of disclosure of information on non-financial risks and opportunities related in particular to climate change. This fact directly indicates the development of responsible investment in foreign practice.

Full disclosure of non-financial information can help to ensure a lower cost of capital and a more diverse investor base. In addition, increasing confidence in the disclosure of non-financial information can support “green” bonds and stimulate innovations in the sphere of responsible investment strategies (European Investment Bank, 2015). What kind of benefit could gain a public company, a banking and an insurance sector through such a disclosure?

- Public companies in the non-financial sector: better understanding of the company's exposure to physical and transient risks associated with climate change; improving credit ratings for bond issues and specifying assess of creditworthiness of bank loans; additional attraction of investors.

- Banks: more justified investment and credit decisions; increasing attractiveness of taking into account climate risks.

- Insurance Companies: better understanding and managing climate risks affecting companies' insurance portfolios.

5.3. Investigation of the “green” financial instruments valuation methodology

The “green” bonds valuation methodology developed by the Moody's Investors Service rating agency was analysed and main components were highlighted (Dou & Qi, 2019):

1) The effectiveness of company management which could be rated through the assessment of the organizational structure of the company, the decision-making process and the quality of reporting would give 15% of the final appraisal.

2) Distributions of borrowed funds which could be rated through the assessment of compliance of the project being implemented with one of the international assessment systems, for example, The Green Bond Principles, would give 40% of the final appraisal.

3) Disclosure of information on the distribution of borrowed funds which could be rated through the assessment of the veracity and transparency of the information provided on the distribution of borrowed funds would give 10% of the final appraisal.

4) The quality of debt management which could be rated through the assessment of the feasibility and effectiveness of the company's debt use would give 15% of the final appraisal.

5) Disclosure of information on ongoing environmental projects which could be rated through the assessment of the frequency of published information on ongoing environmental projects would give 5% of the final appraisal.

6) The level of disclosure of information on the environmental impact of the project which could be rated through the assessment of the quality and transparency of the issuer's reporting regarding the environmental impact of the project being implemented would give 15% of the final appraisal.

The final rating of “green” bonds can vary from GB1 (excellent) to GB5 (poor).

6. Findings

Thus, the held analysis of the successful foreign experience in the field of responsible investment gave us the following findings. The Ministry of Natural Resources and Ecology of the Russian Federation, the Ministry of Economic Development of the Russian Federation and the Working Group on Responsible

Financing (ESG-finance) established on the basis of the Central Bank should take over the functions of regulatory information support, control, development of a methodological base for standardization and evaluation.

Let's take a look at the following challenges which are to be solved by the mentioned state regulators:

1) The necessity to oblige companies operating in Russia to generate and publish non-financial statements in accordance with State Standard and to control the completeness and reliability of the disclosure of this information through an audit. Full disclosure of non-financial information related to the social and environmental performance of companies participating in investment process is one of the principles of responsible investment issued by the UN.

In accordance with the Decree of the Government of the Russian Federation of May 5, 2017 № 876-r (2017). On the Concept for the Development of Public Non-Financial Reporting and an Action Plan for its Implementation (2017), from 2019 a requirement has been established for the mandatory publication of non-financial reports for companies with state participation of at least 50%. The regulator responsible for the implementation of the order is the Department of Financial Banking and Investment Development of the Ministry of Economic Development of the Russian Federation. State standard R ISO 26000-2012 (2013) approves the composition and forms of preparation of non-financial reports.

However, still there is a lack of companies which directly impact on environment and present non-financial reports. Nowadays the most important challenge is to convince all stakeholders that the disclosure of non-financial information, as well as its fullness, is the question of the effective and sustainable growth and development of companies and the whole economy as general.

2) It's vital to develop a methodological basis for assessing the system of environmental, social and managerial risks (ESG-risks) associated with environmental, social and corporate governance factors within companies in Russia. The S&P Global Rating agency has developed a methodology for the analysis of ESG-risks. This methodology allows to detect risks of the company involved in the investment process, as well as ability of the company to manage these risks.

The assessment reflects the opinion of the rating agency about the company's readiness to manage ESG-risks and to use the opportunities associated with them.

- Environmental factors: carbon dioxide emissions, waste management, water management, land use;
- Social factors: human resources, workflow safety, personnel motivation, corporate culture;
- Corporate Governance Factors: organizational structure, transparency and reporting economic security information.

3) Also, to create a rating of companies based on disclosed non-financial information and risk assessment is necessary for the further development and popularization of responsible investment in Russia. Currently, in Russia, the National Register of Corporate Non-Financial Reports and the Library of Non-Financial Reports are created and operate, which contain environmental, social reports of Russian and multinational companies. The rating can be published both through existing information resources (official websites of ministries, Federal State Statistic service, etc), and through the publication and distribution of annual thematic bulletins. This will allow to share an information about the companies participating in responsible investment with potential investors, as well as popularize its results.

4) The task of creating a system of verification and certification of “green” financial instruments (“green” bonds) should be assigned to the Federal Commission for Securities Markets, which would be the basis for the development of the “green” investment market in Russia. Currently, all these issues are transferred to the participants of the investment market. This deprives them of information and advisory support, and also reduces the degree of control and motivation regarding responsible investment in general.

Among experts, there is an opinion that national standards should not be created from scratch, but should be an adaptation of a common international experience, be in full compliance with it. So, the effective decision could be the use of the “green” bond valuation methodology developed by the Moody's Investors Service rating agency.

7. Conclusion

Thus, for the development of the environmental component of responsible investment, necessary for the “green” transformation of the Russian economy, today there is no single normatively-fixed system of standards, a methodological base and a clear separation of functions of economic regulators. The analysis of successful foreign experience allowed us to formulate a number of the most important tasks for Russian regulators today: to approve the requirement for companies to disclose non-financial information; using the methodology proposed by the authors to assess the risk system for companies participating in the responsible investment process; to compile a rating of companies participating in the investment process based on non-financial information and the results of the risk system assessment; to popularize the results of responsible investment, in particular its environmental component through official information resources: mass media, Federal State Statistic service, publication of the annual thematic bulletin; to create a system of certification and verification of green bonds and their rating.

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