

ESG Paradigm: Climate and Environment

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Abstract. To achieve the goals of the Paris Climate Agreement, countries and regions, cities and municipalities, companies and organizations adopt and implement climate plans. The Nordic countries are among the leaders in this activity. Therefore, familiarization with the experience of the Nordic countries in this direction is of particular interest. This toolkit presents both climate change mitigation and adaptation plans being developed and implemented at various levels, primarily in the Nordic countries. Also presented are materials on Russian experience in this area and general materials directly related to climate change mitigation and adaptation. This compilation of materials is part of an information package prepared within the framework of the project “Strengthening the network of non-profit organizations in Russia and the Nordic countries to promote climate mitigation for local development”, with the support of the Nordic Council of Ministers, AirClim (Sweden) in cooperation and thanks to the exchange of experience of NGOs Northwest Russia, Sweden, Norway, Finland and other countries.

1 Introduction

Appeared in the middle of the XX century. ideas of corporate social responsibility eventually transformed into the concept of sustainable development. In this aspect, 2015 became a landmark year for the formation and implementation of international policy in the field of sustainable development [1], since the Sustainable Development Goals (SDGs) were formulated and documented. From this moment on, the SDGs are beginning to be actively integrated into the development strategies of both states and the corporate sector. In addition, they are increasingly being adopted and applied in financial markets as environmental, social and governance (ESG) and impact investments become more popular⁶. The desire of states and corporations to achieve these goals is beginning to act as an integral element of their policies, due to which a market for “sustainable” investments is being formed [2]. Changes in international politics in recent years have given impetus to the link between investment and the achievement of the SDGs in global capital markets. The overall goal of the sustainable bond market is to promote and enhance the important role that financial markets can play in addressing environmental and social issues through

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responsible investment – by locking in social and environmentally friendly projects to which investor financial returns are allocated, and thereby financing social and environmental investments. According to RBC Global Asset Management, the volume of sustainable investment assets (responsible investment capital) is increasing annually - for 2016-2020 [3]. it grew by 55% and reached \$35.3 trillion. Despite the rudimentary stage of development of responsible investment in Russia, this approach to raising capital to finance environmental and social projects can also be applied in domestic practice. The purpose of this work is to summarize international and domestic studies of the ESG concept and to provide an expert assessment of its role in achieving sustainable development goals in Russia and the world. The report examines in detail each of the ESG components, the levels of development of the modern ESG agenda, and assesses the current trends in its development.

The approaches of foreign and Russian commercial companies to the preparation of reports on sustainable development and the formation of their own strategies for achieving the SDGs were analyzed (based on foreign studies, the experience of foreign companies was considered, as well as our own study of non-financial reporting of the largest Russian companies, in which its significant shortcomings were identified), prospects for the use of “sustainable” financial instruments in public administration. Following ESG principles has become one of the key drivers of business value. In this regard, the practice of impact (green) washing has spread, i.e. imitation of the implementation of the company’s environmental or social mission. The authors provide signs of such behavior of companies, examples from international and domestic practice, as well as proposals to reduce the risk of impact washing. According to OECD estimates, SMEs account for 60-70% of industrial pollution in Europe, which necessitates an assessment of the factors for involving small and medium-sized companies in the ESG agenda.

2 Research methodology

The environmental component of CSR is the voluntary participation of business in projects to preserve environmental stability by reducing the negative impact on the environment. In European countries, as early as 50 years of the 20th century, legislative acts were adopted that regulated environmental management. An analysis of the results of recent decades has shown that the work collective is a powerful means of educating and developing the personality of each of its members in personal and professional aspects, but only when it is characterized by a high level of emotional comfort for each of its members. [4]. Companies that focus on CSR in all their business operations gain a competitive advantage and produce environmentally friendly products and services. A business with corporate social responsibility contributes to the well-being of shareholders and strengthens the reputation of the company [5]. Corporations usually consider themselves active participants in the process of sustainable development, which includes social responsibility. Large enterprises, such as multinational corporations (TNCs), contain many diverse and sometimes conflicting cultures. With the advent of globalization, it has become necessary for TNCs to take into account the concept of multiculturalism when deciding on their organizational strategy in relation to CSR. One of the principles of developing a conceptual framework to meet social and environmental requirements is a deductive approach. The concept of CSR applies to all organizations regardless of their size, however, the focus of CSR tends to be on larger enterprises, as these corporations have more power and influence in promoting the sustainability of society. The concept of “corporate social responsibility” has been formed relatively recently and has become one of the most important institutions of a civilized market economy. In modern business, we observe that most firms in various industries, such as manufacturing, agriculture, mining, telecommunications, etc., have embarked on a

corporate social responsibility strategy to attract customers and enhance the image and reputation of firms. CSR is considered a strategic weapon that ensures the existence of the company.

In recent years, the CSR concept has earned special attention due to increased awareness in the business environment. With the advent of globalization, corporate social responsibility has become more international, with large corporations and multinational corporations (TNCs) having to contribute more to global sustainability. Due to the different expectations inherent in different cultural lenses, it is extremely important for multinational corporations (TNCs) to take into account the influence of different cultures in their strategic approaches to CSR implementation.

3 Results and Discussions

The climate agenda, the signing of the legally binding Paris Agreement allowed the topic of sustainable development to go beyond voluntary practices implemented without institutionalization by individual companies, and turn into an rooted ecosystem (ESG 2.0), which has at least the following levels: conceptual level; normative level; level of evaluation and monitoring; design level. From a peripheral corporate activity, the topic of ESG for many companies has turned into the basis of their strategy, into the “DNA” of the core business [6]. ESG 2.0 is built on the following principles: The principle of external data verification. CSR codes are often declarative and non-specific, which makes it extremely difficult to uniformly assess the fulfillment of their obligations. The introduction of the ESG tool, which evaluates a company based on its open reporting, gives quantitative parameters to the verification of CSR practices. The issue of differing approaches in rating agencies remains, but in any case, external verification is a distinct step forward. The presence of ESG ratings encourages companies to publish policies in the field of sustainable development and reports on their implementation; the principle of obligatory topics. In the twentieth century the content of the CSR codes was chosen by the companies arbitrarily. Thus, according to the OECD, 41% of the codes lacked an environmental agenda, and low attention to this issue was noted in Asian countries (except Japan), countries of Southern Europe and Ireland²¹. In today’s situation, knowing that most investors take into account ESG indicators when making investment decisions, and banks when issuing loans, companies cannot ignore environmental, social or governance issues.

The concept of individual social responsibility (ISO) should be aligned with advanced models to promote organizational sustainability [7]. Research shows that people who are more sensitive to corporate social activities, adhere to values that correspond to the principles, and try to increase the sustainability of the corporation.

The theory of individual ethical decision making has provided another model of individual ethical behavior that can be generalized to organizational parameters. Some scholars argue that the concept of corporate social responsibility and its impact on society is basically the extent to which it encompasses the role of almost every individual, such as a consumer, employee, interested or disinterested observer. Sustainability is one of the most important aspects of organizational life [8]. The reality is that “today’s world is becoming turbulent faster than organizations are becoming resilient.”

Governing the ESG agenda plays a critical role in addressing sustainability, ensuring that ESG risks are properly managed, and preventing greenwashing. Country regulation of the ESG agenda is built on the basis of key international documents (such as the 17 UN sustainable development goals, or the principles of responsible finance PRI), but differs significantly depending on approaches to corporate governance, the type of legal family, the structure of the economy and other significant factors . The main topics of the ESG agenda that are affected by regulation are [9]:

- green taxonomies;
- disclosure of information on climate/ESG risks;
- product standardization;
- features of the issue of “green” bonds;
- “green” securities.

Green taxonomies Currently, some 20 countries have approved green taxonomies. As a rule, they are tied to climate goals, which are defined in strategic documents at the national level. Basically, green taxonomies have a pronounced ecological orientation. The exception is Mongolia, where the taxonomy also contains poverty alleviation projects. In addition, social goals are set for the taxonomy adopted in the European Union and Colombia. In other cases, green taxonomies fully justify their name, focusing primarily on issues of reducing carbon emissions [10]. Only in the European Union and China are taxonomies implanted in the fabric of regulations. In addition, they differ significantly in the level of detail.

Thus, in Malaysia, the green taxonomy includes five principles and an open list of control criteria, while the taxonomy of the European Union contains quantitative thresholds for each level of activity, as well as criteria for checking the absence of significant harm, including the focus of the project on: climate change mitigation; adaptation to climate change; sustainable use and protection of water and marine resources; transition to a circular economy; prevention and control of environmental pollution; protection and restoration of biodiversity and ecosystems. Climate / ESG Risk Disclosure One of the first climate risk assessment tools was stress testing companies, primarily in the financial sector. An example is the Climate Risk Consortium+ initiative by North American banks to work together on climate risk management, reflecting the growing recognition of climate change as a financial risk. Regulators in various jurisdictions then moved to models of mandatory or voluntary disclosure of information relevant to climate risk determination. The UK financial market regulator has approved a standard for mandatory disclosure of information about plans to move to carbon neutrality. The Netherlands and France have also adopted regulations requiring financial sector companies to publish the carbon footprint of their investments. In New Zealand, the standard has become mandatory for climate-relevant disclosures among banks, investment companies and insurance companies. It is also important to note that countries use different approaches to determining materiality. It can be interpreted both limitedly (information relevant only to a given company is considered) and broadly (the so-called “double materiality” concept, when climate effects that are generated by both the company itself and its supply chain are also considered). In addition to the disclosure of climate information only, many countries practice a broader approach covering all topics of the ESG agenda. Within this approach, the most common method is the approval of recommendations on the disclosure of non-financial reporting (Malaysia, India, Russia). A more stringent approach, which consists in the mandatory publication of information, also varies, but already depending on the amount of data disclosed (either only disclosure of data, or disclosure of data in combination with the publication of specific measures aimed at achieving the goals of the ESG agenda).

4 Conclusions

However, decarbonization initiatives may eventually gain support from the push for greater independence from fossil fuels, which will accelerate investment in renewable energy. The potential ban on the import of hydrocarbons from Russia and rising energy prices will additionally stimulate the acceleration of the ESG agenda, since the reduction of the negative impact on the climate and the environment, the formation of a lean economy will be further stimulated by the forced search for alternatives to traditional volumes of

hydrocarbon supplies, including by increasing the share alternative energy sources. This is confirmed by the example of Germany, which now plans to achieve 100% “green” energy by 2035, which is 15 years earlier than the planned value of the indicator. On the side of the acceleration of the ESG agenda is the trend of changing consumption patterns on the part of both households and corporate consumers. Thus, an increase in the demand from the population for renewable energy sources is already being recorded against the backdrop of an information agenda about the shortage of traditional energy sources. The UK is seeing a 20% jump in demand for solar panels to be installed on private homes due to huge fuel bills. The main areas on which the environmental component is based include reducing greenhouse gas emissions, as well as a general reduction in environmental damage caused by human activities, maintaining the availability of drinking water for the population, reducing water and air pollution (in particular, sulfur and nitrogen oxides), as well as the reduction of municipal solid waste and the transition to a circular economy. In the report of the World Economic Forum, which contains updated recommendations for companies on disclosing ESG information, in terms of the environmental component, it is proposed to report on the following indicators: the volume of greenhouse gas emissions; the number and area of sites of economic activity in protected natural areas, in key areas for biodiversity, as well as in adjacent areas; the volume of water withdrawal and water consumption in areas with water shortages; area of land used for agriculture, forestry and mining; the proportion of lands mentioned above that are covered by sustainable development standards or certification programs, together with information about said standards or programs; level of impact on land use and ecosystems; the level of air pollution by nitrogen and sulfur oxides, as well as other significant pollutants in populated areas and areas adjacent to them; the amount of nitrogen, phosphorus and potassium in the fertilizers used; assessment of the level of water pollution by excess fertilizers, heavy metals and other toxins; the amount of single-use plastic consumed; the volume of produced municipal solid waste; proportion of materials that are recycled (“circularity index”).

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