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TOWARDS SUSTAINABLE FINANCE THROUGH ENVIRONMENTAL AND SOCIAL RESPONSIBILITY OF BUSINESS

Sergei Nikonorov

Doctor of Economic Sciences, Professor

Moscow State University named after M.V.Lomonosov, Russian Federation

nico.73@mail.ru

Abstract: *Sustainable finance, based on a green agenda and focused on projects in the field of ecology and social aspects of development, cannot yet find application due to the difficult geopolitical situation in Russia at the moment. Corporate environmental responsibility of business appeared along with CSR and was the basis for the emergence of such an element as ESG. ESG is more than ecology. ESG is a new business philosophy in Russia. ESG ratings also enable investors to identify an object for investing their money. ESG is distinct from, but correlates with, Sustainability. In our article, we focused on several painful points that the real sector of the Russian economy needs to overcome in modern conditions, which will last from 3 to 10 years.*

Keywords: *sustainable finance, green trend, ESG – transformation, sustainability rating, green bonds, green investments, corporate environmental responsibility*

Introduction

Sustainable finance with a green agenda and a focus on environmental and social development projects is not yet applicable due to the difficult geopolitical situation in Russia now.

The banking sector, which has clung to the global green trend in every way, is now 80% under severe sanctions and is looking for every possible way to remain competitive in the market.

In our article we will focus on several pain points that need to be overcome by the Russian banking sector in the current environment, which will last, according to the authors of the article, from 3 to 10 years.

Results

The first problem is the problem with money transfers, which is beginning to gain momentum. It is becoming more and more expensive and difficult to transfer currency from Russia abroad, and sometimes even impossible to do so in a legal and civilized manner. Our largest sanctioned banks, such as Sber, VTB and Alfa-bank, have temporarily suspended currency transfers abroad and inside the country. Note that the problem is clearly seen in the state banks (with state participation) and 100 % of private banks.

Clients of private banks, which are not subject to sanctions, also have problems. For example, in June 2022 Tinkoff Bank raised the commission for incoming trans-border transfers up to 3 % of the transfer amount, but not less than 200 euros in the account currency and not more than the transfer amount. «Tinkoff» also changed the conditions of SWIFT - transfers: now the minimum transfer amount is 20.0 thousand dollars. Raiffeisenbank announced plans to increase the fee for currency operations through the SWIFT system, it will be the same – 3 % of the transfer amount at the bank branch and 2 % of the transfer amount in the «Raiffeisenbank Online».

The second problem is the problem with the Russian stock exchanges. The turnovers of the Moscow and St. Petersburg stock exchanges have fallen catastrophically. If the interest to domestic securities is still expected to increase in the medium term, it is not clear how potential investors should treat foreign securities. For example, in July 2022 trading turnover of foreign stocks at Saint-Petersburg stock exchange turned out to be 77 % lower than in July of the previous year. The number of active investor accounts also decreased significantly. At the end of 2014, St. Petersburg Exchange launched trading in foreign securities, and in 2016 it put them on a certain basis - the so-called roaming mechanism, which allowed Russian investors to buy securities around the world on

Western markets, but through Russian brokers. 2018 was the most successful year for Russian stock exchanges (MosExchange, SPCEX). A serious growth of turnovers began and there was an inflow of new private investors. It happened mainly because of reduction of rates on deposits. Investors began to seek alternatives to passive investing. In 2021, the SPCEX overtook the Moscow Exchange in terms of trading volume. But they also competed with each other. Moscow Exchange started trading foreign securities as well, and SPCEX started trading Russian securities. But now there is no competition. The Central Bank has blocked in Russia, so far for six months, trade in some foreign securities. Most of them used to be primary listed in the U.S. and kept at the National Settlement Depository. The SPCEX is now at a deadlock in its development, since its main business is foreign securities. The sharply increased risks of blocking of foreign shares noticeably reduced the interest of retail investors to them. At the same time, the Russian government is already discussing the issue of banning the purchase of foreign securities by unqualified investors. It is possible to continue to act through Cyprus, but this country is a member of the EU. It is possible to try to turn the Astana platform into a kind of analogue of the SPCEX, but what is the sense in it, if any assets stored abroad can be blocked. The spreading of securities across multiple depositories may help to reduce risks for investors. In June 2022, the SPSE launched securities trading from the Hong Kong Exchange. By September, 50 securities of companies from Hong Kong and China should be available. By the end of 2022 there is a plan to increase this number to 200, by the end of 2023 - to 1000. But the Bank of Russia is going to raise up to 60.0 million rubles the threshold at which it will be possible to buy CS, which will severely limit transactions with them. Potential investors are waiting for the situation to recover, but it is all for the long term, and the factors that have already led to a decline in the shareholder value of stock exchanges will persist. Since one of the goals of the Western sanctions = to cut off all possible financial ties of the Russians, to remove all bridges and bridges, it is probably possible to repeat this success with other foreign markets, such as neutral markets. But all this is also at risk of secondary sanctions.

An interesting and promising direction could be the development of b2b, in the form of an electronic platform for state procurement (similar to the platform «RTS-Tender»). It is possible to repeat the path of the St. Petersburg Currency Exchange, which works for the domestic market. Or follow the path of commodity exchanges. The logical direction of SPCEX development would be to turn to the East. The exchange could work with Asian stock exchanges. Another option would be to work more actively in the domestic market with new shares of Russian issuers. For example, medium and small companies could come to the platform. A good and interesting direction could be more effective work with exchange-traded funds. Creation of a marketplace for stock instruments.

Foreign shares remain today an interesting asset for trading, investments and for diversification of portfolios, including for private investors. However, the issue of rights accounting is now particularly acute. «Whoever is able to level risks will be able to become an interesting platform for Russian investors. Including for those who are ready to invest in securities of companies from friendly and neutral countries». The mechanism may be different, for example, the creation of a reciprocal interdepository registration of rights or maintenance of registers of owners [2].

The third problem. The real problem now is not so much in tariffs as in the unpredictability of payment results. Commissions for transfers are not charged by SWIFT, it is only a communication channel between banks. Limiting payments by any means, credit institutions are trying to cope with the increasing number of inspections by Western partners and reducing the number of banks - SWIFT-payments operators, working in Russia. Costs of the banking sector are growing due to increasing time of transfers, freezing of assets and loss of business - so banks are trying to transfer part of the losses to the consumer. Today there is a disconnection of Russian banks from SWIFT and reduction of the number of external banks, which could or would like to work. This is important for any transactions with currency, as such operations always involve a correspondent bank in the country where the currency is issued. Not all foreign banks are ready to break off relations completely, but to make payments more difficult is the norm of doing business

today. Some foreign currency payments are made quickly, while others are rejected or, at best, slowed down. All of this translates into higher tariffs, but no tariff guarantees results now. Each sanction bank has its own list of restrictions, and in some jurisdictions, in local currencies. For most counterparties, it's easier to end the relationship than to sort through the various wording from EU, U.S. or UK sanctions in effect this minute for each transaction. In fact, many sanctioned banks make payments in renminbi, but how much can be counted on in the long run [1].

The first solution. In Russia, an analogue of SWIFT began to develop back in 2014, when at a meeting of the European Commission it was first proposed to disconnect our country from this system. Today there is - the System of Transmission of Financial Messages (SPFS) from the Central Bank. This system began full-fledged operation in 2017, and in 2020 the share of messages transmitted through the SPSS, exceeded 20 % of domestic SWIFT traffic. But, of course, this is not a full-fledged replacement, as this System is ineffective for external transfers.

Sberbank also began to create an international settlement system alternative to SWIFT, and plans to complete its configuration within a year. But since SBER itself is under sanctions, it is unlikely that it will be able to bring its system to the international level. The example of Iran, when the country was cut off from SWIFT, led to the use of a greater number of financial intermediaries, which in turn leads to an increase in commissions, as each bank is a commercial institution and charges its own commission. Therefore, cross-border transfers become more expensive. Any system similar to SWIFT requires strong security and responsible staff. Another possible solution could be to increase the number of transfers in digital currencies or on the basis of blockchain, as this direction is actively being developed in the Russian Government. Transactions with digital ruble will make SWIFT unnecessary. A complete blocking of the SWIFT system may not happen, as it is fraught with difficult to predict consequences for the energy market and energy supplies, which creates huge risks for the very countries that imposed sanctions against Russia.

The second solution. Yuan Bonds. The yuan will rapidly displace the euro and the dollar on the Moscow Exchange. The trading volume of the Chinese currency in August 2022 exceeded that of the dollar and euro. Russia has now risen to third place in the world in the use of the yuan outside China (in June 2022 it was in seventh position). Russia accounted for 3.9 % of all RMB transactions worldwide in July (only the United Kingdom and Hong Kong had more). Demand for yuan from ordinary citizens who want to diversify their savings has also increased significantly. According to the Central Bank, in June 2022 the share of physical persons in the volume of purchases was 13.9 % and in the volume of sales - 5.5 %. Now Russian business is looking for new partners from Asian countries, and with them China is also yuanizing trade turnover, and as a result, trade flows with new friendly and neutral countries can be served by Russia through yuan. True, the question remains about the transition to Russian rubles in foreign trade transactions. So far the focus is on the Chinese currency. And we must not forget the simple rule: «Concentration on one method of payment carries dangers and risks».

Conclusions

The first conclusion. Cash flows in the Russian financial system are slowing down. In May 2022 the rate of lending is very low, which did not even allow us to keep the volume of the loan portfolio at the same level. But at the same time the bank has more than enough money. The volume of bank customers' funds (both legal entities and individuals) began to grow again. The structural liquidity surplus of the banking sector stopped at the level of 2.5 trillion rubles. This suggests that the banking system is facing a surplus of money. The money is «frozen» due to the conservative policy of commercial banks. But already in the third quarter we may see an increase in loans for foreign trade transactions. In general, most economists, experts and analysts consider the situation with some surplus of clients' money from banks with a decrease in lending to be critical. The current changes in lending and funds of legal entities and individuals are absolutely normal for the current «crisis of relations» and are occurring in a wave of predictable events. The population is cautious, there is nowhere to invest money. In March 2022 there was an increase in investments of citizens in securities, but it quickly came to naught as well. Final demand is shrinking before our

eyes, and imports are at their lowest. The credit squeeze in the current environment is also quite normal. This is likely to continue for at least another six months to 1.5 years. We are also in a structural pause: suppliers and consumers are changing, very slowly, but parallel imports are increasing. There is a change of markets: Europe is closing, the direction of markets from Azerbaijan and Turkey to China is opening, and new directions in the ASEAN countries are being sought. If the positive trends will turn into real foreign trade ties, then before the end of 2022, we should expect a change in the asset structure of banks in terms of the growth of loans for foreign trade transactions. The steady movement of financial resources correlates with the situation in the Russian economy. And here two views prevail: 1) pessimism. The Russian economy as a whole is slowing down. Production, export-import operations, savings and accumulation-all processes are unbalanced. The problem is not finance. Finance is only a reflection of monetary relations and a real reflection of the process of economic slowdown. For the last 20 years Russia has struggled for a favorable investment climate, but for the next 10 years this is unpromising. There will be no outside investors, with few exceptions. As for domestic investors, it is unclear who is willing to risk their money in the current difficult situation. If there is no investment, there is no development. To do the import substitution and the transition to the best available technology (BAT), we need funds and new equipment. Companies have questions:

- a) Where to find the money?
 - b) If there is money, where to buy?
- 2) optimism.

With currency restrictions and decreased confidence in the Russian stock market, the base of alternative forms of savings has decreased, even fewer options for citizens. This could mean that there will be an inflow of funds into banking institutions in the short and medium term, even with a further decline in interest rates. The forecast for the key rate of the Central Bank is 8.0 - 8.5 % until the end of 2022, and the weighted average interest rate on deposits is 7.0 - 7.5 %. By the end of 2022, we can expect a revival of the economic situation, with growth of loans to legal entities up to 5 %, and to individuals up to 1 – 2 %. The Bank of Russia predicts a full recovery of credit activity of the national economy subjects already in 2023 [11].

The second conclusion. The Russian bond market is slowly coming back to life. As of June 2022, there were 31 new issues of corporate bonds placed in Russia for the total amount of Rb 94.95bn. In May, there were only 19 new issues, but of a larger volume, worth 139.71 billion rubles. March and April 2022 were failures for the primary market of Russian corporate bonds. Amid sanctions pressure in March 2022, only two companies ventured to bring new bonds to the market: a) VTB; b) «Aston» (a financial management company). In April there were already 8 placements, but the market was mainly entered by specialized financial companies («Aurum», MIP-1, «Capital Plus», «Titan»). But they were placed by closed subscription among qualified investors, so the placement was not of a market nature. The situation began to improve in May 2022, when the major players returned to the primary market: «Avtodor», «Ingrad», MTS, «Rostelekom» and others. In June, «Slavneft», «RESO Leasing», Russian Post and others placed their bonds. Russian Post placed its bonds in the amount of Rb 30.0bn, «Rostelekom» - Rb 15.0bn. «Sibur» placed its bonds. The company took 15.0 billion rubles for 3.5 years at 9.9 %. By the volume of issued bonds, May - June 2022 has already surpassed the indicators of January - February 2022. In January 2022 Russian companies placed bonds for 16.08 billion rubles, in February - 66.3 billion rubles, with most of the attracted SBER and VTB. Most likely, the upward trend in the bond market will continue until the end of 2022. We see this as a development prospect, especially if Russian companies place bonds among unqualified investors (i.e. Russian citizens). In this we see the sustainability of the development of financial relations under the conditions of partial financial autarky.

There is no unambiguous interpretation of the concept of «social responsibility of Russian companies (CSR)». All the stakeholders in this area, i.e. authorities, business representatives and NGOs, are trying to interpret the concept in their own interests. One of the classical definitions of

corporate social responsibility: «CSR is a system of ethical norms and values of a company as well as consistent economic, environmental and social activities implemented on the basis of continuous interaction with the stakeholders concerned) and aimed at reducing non-financial risks, long-term improvement of the company's image, business reputation, capitalization and competitiveness growth ensuring both profitability and sustainable development». [4].

Corporate environmental responsibility of business appeared along with CSR and was the basis for the emergence of such an element as ESG [5]. ESG is more than ecology. ESG is a new philosophy of doing business in Russia [8]. Also ESG - ratings allow investors to determine the object for investing their money [7]. ESG is different from Sustainable Development, but correlates with it [3].

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BİZNESİN EKOLOJİ VƏ SOSIAL MƏSULİYYƏTİ VASİTƏSİLƏ DAVAMLİ MALİYYƏYƏ DOĞRU

S.M.Nikonorov

iqtisad elmləri doktoru, professor

M.V.Lomonosov adına Moskva Dövlət Universiteti, Rusiya Federasiyası

Xülasə: “Yaşıl gündəm”ə əsaslanan və ekologiya və inkişafın sosial aspektləri sahəsində layihələrə yönəlmiş davamlı maliyyələşdirmə hazırda Rusiyada mövcud olan çətin geosiyasi vəziyyət səbəbindən hələ də tətbiqini tapa bilmir. Biznesin korporativ ekoloji məsuliyyəti KSM ilə birlikdə meydana çıxdı və ESG kimi elementin yaranması üçün əsas oldu. ESG ekologiyadan daha çox şeydir. ESG Rusiyada yeni biznes fəlsəfidir. ESG reytingləri həm də investora pullarını hara yatıracaqlarını müəyyən etməyə imkan verir. ESG davamlılıqdan fərqlidir, lakin onunla əlaqələndirilir. Məqaləmizdə Rusiya iqtisadiyyatının real sektorunun 3 ildən 10 ilə qədər davam edəcək müasir şəraitdə aradan qaldırılmalı olduğu bir neçə ağır nöqtəsinə diqqət yetirdik.

Açar sözlər: davamlı maliyyə, yaşıl trend, ESG transformasiyası, davamlılıq reytingi, yaşıl istiqrazlar, yaşıl investisiya, korporativ ekoloji məsuliyyət

НА ПУТИ К УСТОЙЧИВОМУ ФИНАНСИРОВАНИЮ ЧЕРЕЗ ЭКОЛОГИЧЕСКУЮ И СОЦИАЛЬНУЮ ОТВЕТСТВЕННОСТЬ БИЗНЕСА

С.М.Никоноров

доктор экономических наук, профессор

Московский государственный университет имени М.В.Ломоносова, Российская Федерация

Резюме: Устойчивое финансирование, основанное на «зеленой повестке» и ориентированное на проекты в области экологии и социальных аспектов развития, пока не может найти применения из-за сложной геополитической ситуации в России на данный момент. Корпоративная экологическая ответственность бизнеса появилась вместе с КСО и послужила основой для появления такого элемента, как ESG. ESG — это больше, чем экология. ESG — это новая философия бизнеса в России. Рейтинги ESG также позволяют инвесторам определить объект для вложения своих денег. ESG отличается от устойчивого развития, но коррелирует с ним. В нашей статье мы акцентировали внимание на нескольких болевых точках, которые необходимо преодолеть реальному сектору российской экономики в современных условиях, которые продлятся от 3 до 10 лет.

Ключевые слова: устойчивое финансирование, зеленый тренд, ESG-трансформация, рейтинг устойчивости, зеленые облигации, зеленые инвестиции, корпоративная экологическая ответственность

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