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"ECONOMICS FOR ECOLOGY"

Materials
International scientific-practical conference
(Ukraine, Sumy, May - June 31- 01, 2022)

Sumy
Sumy State University
2022

УДК: 330.36.012

Авторський знак: S70

Editor-in-Chief Prof., Dr. Karintseva Oleksandra, Head of the Department of Economics, Entrepreneurship and Business Administration, Sumy State University

Approved by the Academic Council of Sumy State University (order № 0547-I, 12 September, 2022)

Economics for Ecology : Proceedings of the International Scientific and Practical Conference, Sumy, 31 May – 01 June, 2022 / edited by Karintseva Oleksandra and Kubatko Oleksandr . – Sumy : Sumy State University, 2022. – 93 p. ***(electronic edition)***

For scientists, scientists, students, graduate students, representatives of business and public organizations and higher education institutions and a wide range of readers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTING: SHIFTS DURING THE WAR

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ESG investing has been on an exponential rise at least until the Russian invasion of Ukraine in February 2022. To understand how the new stage of the Russian-Ukrainian war will affect the capital allocation via ESG channels, I analyze the driving forces of ESG investing, their linkages, and how the war will affect each approach of ESG investing and ESG investing overall. Specifically, I suggest that western companies that exited Russia, and those that stayed in Russia will have opposite incentives regarding ESG metrics in the international operations: companies that stayed in Russia will need to put more efforts towards ESG internationally, and companies that exited Russia might need to put more effort on financial indicators at, perhaps, a cost of ESG.

Exiting business in Russia in a rapid manner has a negative immediate effect on the western business, however, decreases risks or even adds to ESG appeal in Western markets. Most likely companies that stayed in Russia might have lowered ESG scores as they are at higher risk of controversies related to financing the invasion through taxes. Customers might shy away from the companies that violate ESG principles or that stay in Russia. The companies that exited made a choice of preserving and potentially expanding their customer base in international markets with the cost of losing Russian customers. However, abrupt exit had an immediate negative effect on financial performance. So, in a way, these companies now have somewhat higher ESG, with somewhat lower financial indicators. Russian policy on import substitution will create some new competition in the industry. Companies that exited Russia are affected more by this change in the long run.

For companies that stayed, they did not have as big of an effect of the war on their financial indicators, they face an array of higher risks beyond the customer's attitudes governments might put pressure or additional legislative measures/sanctions to affect the course of action of companies if these companies become too controversial. Also, a stronger Russian Ruble makes their incomes smaller in USD-denominated financial reports.

To summarize, I suggest, testing the difference between businesses that stayed in Russia and those that exited. Exciters are likely to have lower profitability in the short run, but lower risks (variance, expected shortfall) in the long run. They are also expected to have higher S- and G- scores, while those that stayed will likely have higher incentive to improve their E-scores At this point, it is impossible to test this hypothesis and should be tested when financial results from 2022, 2023, and 2024 are announced.