ESG rating: global experience and development in Belarus

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Abstract. World trends in the use of the ESG rating are of particular relevance in the period of globalization, crises and cataclysms. They are gaining their popularity among companies, as they are an element of self-audit of organizations, they allow improving the image, gaining access to stock exchanges, attracting investors, and conquering new markets. In the Republic of Belarus, rating activity is in its infancy, which necessitates fundamental and applied research in this area. Within the framework of this article, the need to develop a methodology for assigning an ESG rating and creating a state rating provider in Belarus is substantiated. The scientific novelty of the work lies in the development of the author's methodology for assigning an ESG rating to industrial organizations in Belarus based on a multi-category assessment of the relevance of indicators for selected blocks that correspond to ESG principles, which allows for a comprehensive assessment of organizations with ESG practice along the chain "Goals-Actions-Results". Based on the results of the study, conclusions were drawn about the feasibility of using the ESG rating by various stakeholders to implement the concept of sustainable development in the country.

1 Introduction

Global changes in economic systems and their constant transformation lead to the search for sustainability in development. The issues of sustainable development are reflected in the Concept of sustainable development of society, which was adopted at the UN Conference on Environment and Development in 1992 in Rio de Janeiro (Brazil) at the level of heads of state and government. The modern interpretation of the concept of sustainable development is reflected in the UN Sustainable Development Goals [1], which involve a balanced change in the economic, social and ecological systems in society. Underestimation of each component of the system leads to development asymmetry and imbalance. Thus, the active development of the country's economy with a weak development of environmental and social areas leads to a violation of sustainable development, since it is impossible to improve living conditions if the increase in the capacity of the economy is not accompanied...
The UN Sustainable Development Goals for business have been further disseminated around the world within the framework of the ESG principles. ESG principles can be deciphered as a conscientious attitude of an organization towards the environment, accompanied by a high level of social responsibility and high-quality corporate governance. Evaluation of compliance with the ESG principles is based on a rating system, which is carried out by specialized agencies (rating providers) according to the methodologies developed by them. The global popularity of ESG principles within the framework of the concept of sustainable development necessitated the unification of the ESG rating methodology and indicated the relevance of the chosen scientific direction.

High interest in the ESG concept is observed both in scientific and practical activities. The authors explore the prerequisites and factors for the popularity of the ESG principles [2, 3, 4], study the ESG rating methodologies and suggest ways to unify them [5, 6, 7, 8], consider the impact of the ESG rating on the organization's business reputation and investment attractiveness [9, 10].

The purpose of this study is to develop a methodology for assigning an ESG rating to industrial organizations in the Republic of Belarus. To achieve this goal, it is necessary to solve a number of tasks: to study the international experience of the ESG rating, to analyze the methodology of popular ESG rating agencies of near and far abroad, to draw appropriate conclusions; analyze national experience, identify factors hindering the development of ESG rating in Belarus, determine the prevailing prerequisites for its use by businesses, propose an author's methodology for assigning an ESG rating to industrial organizations, develop an ESG rating scale and identify the need for its implementation in the Republic of Belarus.

2 Methodology and methods

ESG principles were first formulated in 2005 by Kofi Annan as support for the concept of sustainable development, in 2010 the first ESG rating was developed. Currently, many methodologies have been developed that are intended primarily for investors when making decisions on the implementation of projects.

The roadmap for the development of ESG principles is shown in Fig. 1.

Fig. 1. Roadmap for the development of ESG principles

Under natural conditions, the reasons for ESG when choosing investments are in the first place [4, p. 67]. Therefore, complete and reliable information allows you to make
informed investment decisions.

At the end of 2022, there are more than 20 specialized ESG agencies in the world and more than 40 secondary rating agencies that calculate the ESG rating. To the most justified agencies from placement: RobecoSAM, Sustainalytics, ISS, MSCI (Table 1).

### Table 1. Determination of ESG scores by international ESG agencies [11, 12, 13, 14].

<table>
<thead>
<tr>
<th>Agency name</th>
<th>Agency characteristics</th>
<th>Determining an ESG rating or score</th>
<th>Scale of activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>RobecoSAM</td>
<td>An investment organization that specializes in sustainable investment and provides services for asset management, calculation of the sustainability index</td>
<td>The methodology is based on more than 100 indicators that have three directions (economic, environmental, social), they include quantitative indicators and qualitative indicators</td>
<td>About 5 thousand organizations were rated</td>
</tr>
<tr>
<td>Morningstar (Sustainalytics)</td>
<td>An organization specializing in assigning ESG ratings to companies</td>
<td>The methodology is based on ESG risk ratings, which assess the likelihood of a crisis in economic, environmental and social activities. The analysis combines quantitative assessments and qualitative risk categorizations.</td>
<td>Leader in ESG rating, rated over 12,000 organizations</td>
</tr>
<tr>
<td>ISS ESG</td>
<td>The organization provides analytical data in the field of ESG rating</td>
<td>The methodology has an assessment and screening tool based on the organization's data, including various areas of activity, which allows assessing the investment attractiveness of the organization. It is based on an assessment of the risk exposure of organizations and risk management approaches throughout the value chain.</td>
<td>Ratings were made for more than 6 thousand organizations</td>
</tr>
<tr>
<td>MSCI</td>
<td>The organization is a leader in the evaluation of the stock market, the stock market and the calculation of indices, including ESG indices</td>
<td>The methodology is represented by a set of ESG indices, which includes more than 1500 sustainable development indices. Mainly used by investors, it allows them to understand ESG risks and opportunities in order to manage their investment portfolio.</td>
<td>Ratings were made for 14 thousand organizations</td>
</tr>
</tbody>
</table>

The study of the work of rating agencies led to the conclusion that there is no unified
international methodology and standards for compiling the ESG rating, which leads to distortion of the data obtained. The absence of a single unified form of non-financial reporting hinders the receipt of reliable data and does not allow forming a complete picture of the organization's sustainable development.

Based on the results of consultations, ESMA (European Regulator of Credit Rating Agencies) concluded that the European market for ESG ratings is still at the stage of active development and formation, and stated that it will continue to interact with the European Commission to assess the need to introduce regulatory measures in relation to ESG ratings [15, p. 101]. India's credit rating agency regulator SEBI has also started discussions with the market on drafting a regulation on the provision of ESG ratings. [16, p. 95]. This gives rise to the emergence of a large number of rating agencies, each of which applies its own approaches to the ESG rating methodology, which makes it difficult to compare the results obtained.

The use of the ESG rating by Russian organizations is limited by a number of institutional barriers. Despite this, following the principles of sustainable development in many Russian organizations is a priority goal, investors choose those organizations that are active in economic, social and environmental activities and are open to non-financial reporting.

At present, there are four ESG rating agencies operating in the country (Table 2).

<table>
<thead>
<tr>
<th>Name of methodology and agency</th>
<th>Determining an ESG rating or score</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESG Rating Methodology (Expert)</td>
<td>The developed system of indicators evaluates the company from three aspects (environmental, social and economic) and applies a weighted sum of points for each aspect. The final score or rating number range is obtained by summation. The resulting value allows you to rank organizations according to the ESG level</td>
</tr>
<tr>
<td>ESG Rating Methodology (HPA)</td>
<td>The presented rating system allows assessing the environmental and social risks of the organization, as well as the effectiveness of the corporate governance system based on the standards and principles of sustainable development</td>
</tr>
<tr>
<td>ESG Rating Methodology (ACRA)</td>
<td>Holistic formation of quantitative and qualitative characteristics of the organization's activities in the field of environmental stability, social responsibility and corporate governance allows us to assess the level of ESG development</td>
</tr>
<tr>
<td>ESG Rating Methodology (RAEX-Europe)</td>
<td>Assesses the effectiveness of managing an organization's exposure to industry risks, country risks, and company risks, as well as the extent to which ESG opportunities are being used based on factors across 221 indicators</td>
</tr>
</tbody>
</table>

The developed Russian metrics of ESG rating values are based on the principles of sustainable development, but each of the presented methodologies includes its own set of indicators, its own weight coefficients and criteria values, which reduces the comparability of the data obtained.

It should be noted that large Russian companies are actively involved in the ESG agenda. They publish non-financial reports, form requests for ESG ratings, have developed practices of corporate social responsibility and corporate governance. Despite this, representatives of small and medium-sized businesses are rather inactive in joining this process. They have limited access to environmental, social and management information
about their activities, lack of a culture of non-financial reporting and lack of motivation to obtain an ESG rating. This hinders its institutional formation, but does not reduce its importance in the period of globalization.

Despite these facts, Russia has a positive experience in the development of ESG principles. The presence of an ESG rating for a company is an important factor for domestic investors, and its increase leads to an increase in the value of the organization.


From January 1, 2020, additionally from the Decree of the President of the Republic of Belarus dated February 7, 2019 No. 42 “On the use and addition of the Instructions of the President of the Republic of Belarus”, the National Bank was empowered to regulate rating activities in the country.

By Resolution of the Board of the National Bank dated January 12, 2021 No. 7 “On accreditation of a rating agency”, BIK Ratings LLC was accredited as a national rating agency [21, p. 48]. Today it is the only rating agency in Belarus.

The Agency has a methodology and assigns possible ratings: corporate rating; credit rating for lending organizations; ESG rating of companies, cities and regions; business reputation rating of companies. Methodology for assigning corporate ratings agreed with the National Bank of the Republic of Belarus to assess the credit ratings of organizations-residents of the Republic of Belarus.

Along with the topic, the methodology for assigning an ESG rating to companies, cities and regions is not mandatory for agreeing and providing the author's vision and approach to it. The methodology for assigning ESG ratings to companies, developed by BIK Ratings, involves the assessment of three risk profiles: environmental, social, and managerial.

The environmental risk profile includes factors such as impact on production, water, soil and natural resources. Also assessed are the company's environmental strategy, waste management practices, negative environmental and investment research plan, environmental performance, use of energy sources, and responsible environmental investment practices. Profile risks include corporate social responsibility feedbacks, wages, social protection, labor protection system, minimization of social risks, social marketing, tensions, opportunities for responsible investment. The managerial risk profile makes it possible to evaluate business reputation, development detection, the effectiveness of the activities of supervisory and executive bodies, risk management, and increasing business activity. Customized for ESG risk assessment.

As mentioned above, at the moment there is no regulation in the field of ESG ratings all over the world, it is still at the stage of preliminary indicators and manifests itself in the manifestation of rating organizations, referring to its own methodology with consideration of a set of indicators.

Despite the fact that Belarus has a national rating agency that offers organizations the possibility of conducting ESG ratings, it has not found wide application among business entities. As of 12.2022, BIK Ratings LLC rated BSB Bank CJSC (A.esg rating), Sber Bank OJSC (AA.esg rating), BNB-Bank OJSC (A.esg rating).

In our opinion, the low interest in ESG rating among Belarusian business entities is due to the following factors:

1. Lack of regulatory requirements from government agencies.
2. Organizations' misunderstanding of the commercial benefits of ESG ratings.
3. Lack of incentives for enterprises with high ESG ratings.
4. Underdeveloped system of non-financial reporting in Belarus, which is a key
information base for rating.

However, these difficulties have become a certain driver for the development of ESG rating in national practice.

Decree of the Council of Ministers of the Republic of Belarus dated March 12, 2020 No. 143 “On the State Program “Public Financial Management and Regulation of the Financial Market” for 2020 and for the period up to 2025 allocated subprogram 6 “Regulation of Accounting, Reporting and Auditing in the Corporate Sector”. The subprogram defines one of the goals and objectives “Development of the non-financial reporting system in the corporate sector”. By 2025, the number of organizations compiling non-financial reporting should be 100 units. This will contribute to the development of the information base for ESG rating.

The National Action Plan for the Development of the Green Economy in the Republic of Belarus for 2021-2025 contains one of the following activities (paragraph 51): consideration of the feasibility of implementing economic incentive measures for economic entities implementing environmental and energy management systems, and organizations that finance such entities (invest in them), as well as the use of ESG ratings.

We can also note the growth of interest in ESG rating from businesses with foreign capital, which is caused by both economic factors (the possibility of obtaining preferences from the state, increasing investment attractiveness, gaining access to financing), and non-economic ones (improving the image, the possibility of attracting talented employees), etc.).

3 Results

In our opinion, ratings in Belarus should be carried out not only by commercial structures, but also by government bodies. The rating assigned by the state organization can later be the basis for the possibility of obtaining preferences from the state (reducing interest rates on loans, participation in green purchases, etc.). In addition, such a rating will help avoid conflicts of interest between the rating subject and the rating agency.

It is advisable to appoint the National Statistical Committee as the national coordinator for the ESG rating. This requires the development of a national methodology for assigning an ESG rating to organizations, taking into account the industry specifics of organizations. We have made an attempt to develop a methodology for assigning an ESG rating to industrial organizations that have the greatest impact on the state of environmental systems through the generation of waste, discharges, and emissions. In addition, a significant number of workers are employed in industrial production in Belarus, which actualizes the solution of social issues and the need for high-quality corporate governance.

The rating developed by ESG is an expert opinion that measures, using letter levels, the degree to which an organization considers and manages significant environmental, social and corporate governance factors based on selected criteria. The methodology takes into account significant factors in three aspects: E - Environmental (ecology / environment); S - Social (social policy); G - Governance (corporate governance).

The ESG rating is determined based on the assignment of the organization to one of the letter levels (Table 3).

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</table>
We have made an attempt to develop a methodology for assigning an ESG rating to organizations, taking into account the industry specifics of organizations. The rating developed by ESG is an expert opinion that measures, using letter levels, the average level of consideration of ESG factors in the management of the organization.

<table>
<thead>
<tr>
<th>B-ESG Average</th>
<th>B1-ESG</th>
<th>Sufficient level of consideration of ESG factors in the management of the organization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B2-ESG</td>
<td>The average level of accounting for ESG factors in the management of the organization</td>
</tr>
<tr>
<td>C-ESG Short</td>
<td>C1-ESG</td>
<td>Initial (low) level of accounting for ESG factors in the management of the organization</td>
</tr>
<tr>
<td></td>
<td>C2-ESG</td>
<td>Insufficient level of consideration of ESG factors in the management of the organization</td>
</tr>
</tbody>
</table>

The logical scheme for assigning a rating is shown in fig. 2.

Fig 2. Logic scheme for assigning a rating

Block 1 allows you to assess the presence of ESG goals (programs, strategies) in an organization and has a weight of 15%.

Block 2 allows you to evaluate the actions (measures) of the organization aimed at fulfilling the ESG goals (programs, strategies) and has a weight of 45%.

Block 3 allows you to evaluate the results of actions (measures) of the organization on the ESG agenda using quantitative indicators and has a weight of 40%.

The final rating score is determined by formula 1.

$$ ESG = \frac{1}{3} \left( \sum_{i=1}^{n} W_i \times A_i + \sum_{i=1}^{n} W_i \times B_i + \sum_{i=1}^{n} W_i \times C_i \right) $$  (1)

where $E_i$ ($i = 1, \ldots, K$) – set $A$ of relevant connections of block $E$; $S_i$ ($i = 1, \ldots, L$) – set $B$ of relevant blocks $S$; $G_i$ ($i = 1, \ldots, M$) – set $C$ of relevant applications of block $G$; $W_i$ – is the weight of the i-th installation in blocks "E", "S", "G".

The results of the calculation make it possible to determine the average score that corresponds to a certain rating category (Table 4).

| Table 4. Compliance of the final score with the calculated ESG rating |
|-------------------|--------|----------------|--------|
| Rating level      | Rating Category | Average score | Definition  |
| A-ESG High        | A1-ESG | >0,83 – 1      | Highest |
|                   | A2-ESG | >0,66 – 0,83   | High   |
To obtain the final result for each aspect, evaluation factors are determined. For each factor in three blocks (Fig. 2), quantitative and (or) qualitative indicators (indicators) have been developed and their weight has been determined, for each of which criteria have been determined corresponding to the 0 scale; 0.5; 1.

Significant environmental factors in this methodology include assessment of water resources management; biodiversity; energy; waste generation; greenhouse gas emissions; climate change; supply chain to ensure environmental safety; environmental safety and product quality; the environmental impact of the organization's activities on stakeholders.

For example, the assessment of the “water resources management” factor includes the following indicators (indicators) for three blocks:
- the first block - goals (program, strategy) of water resources management (weight 15%);
- the second block - measures for water resources management (45%);
- the third block - total water consumption (5%), specific water consumption per unit of production (10%), volume of reused water (10%), collection of untreated wastewater (5%), specific water discharge per unit of production (10 %). The weight of the factor was determined by the expert method.

Criteria have been developed for each of the indicators. For example, the indicator "specific water consumption per unit of production" is assigned: 0 points - if the specific water consumption per unit of production has been increasing in dynamics over the past three years and / or it is higher than the average for the type of economic activity over the past five years (if there are ); 0.5 points - if the specific water consumption per unit of production in dynamics over the past three years is multidirectional, however, lower than the average for the type of economic activity over the past five years (if any); 1 point - if the specific water consumption per unit has been decreasing in dynamics over the past three years and/or it is lower than the average for the type of economic activity over the past five years (if any).

Significant social factors in the methodology include: labor protection, industrial safety, industrial injuries; staff training and development; social policy, data privacy, cybersecurity and trade secrets; diversity, gender equality and equal opportunities for employees; respect for the rights and interests of employees; respect for the rights and interests of local communities; respect for rights and interests in the supply chain.

The essential factors of corporate governance in the methodology include strategy and sustainable development management; the quality of the board of directors (supervisory board) and the board; risks in the organization; business ethics; disclosure practices.

Thus, the development advantage is:
- the use of the “Goals-Actions-Results” scheme, which allows you to comprehensively evaluate the approach of organizations to ESG practices;
- assessment of performance results based on predominantly quantitative indicators, which makes it possible to increase the objectivity of the assessment;
- delegating the functions of compiling the ESG rating to government bodies.
4 Discussion

The lack of state unification in matters of non-financial reporting complicates the scaling of the ESG rating in the Republic of Belarus. The existing international experience does not allow its application in national practice without adaptation and modification. This is due to a number of objective factors: the lack of unified reporting standards for organizations and requirements for various types of economic activity, taking into account their specifics, a limited range of indicators that allows for a quantitative assessment, etc.

The results of this study were aimed at developing a methodology for ESG rating in the industrial sector of the country based on a multi-category assessment of the relevance of indicators for selected blocks that correspond to ESG principles, and which allows for a comprehensive assessment of organizations with ESG practices along the “Goals-Actions-Results” chain. The results achieved in this study made it possible to develop a methodology taking into account the specifics of reporting in Belarus based on quantitative assessment indicators.

We present a comparative description of the existing methodologies for assigning an ESG rating and the author's approach (Table 5.), as well as assess the possibility of their application in the practice of industrial organizations in Belarus according to the following criteria:
1 - features of the formation of industry reporting in Belarus;
2 - the presence of industry specifics;
3 - ease of calculation;
4 - inclusion of three components of ESG in the assessments;
5 - the presence of quantitative indicators.

Table 5. Comparison of existing methodologies for assigning an ESG rating and the author's approach in order to use in the practice of industrial organizations in Belarus

<table>
<thead>
<tr>
<th>Agency name</th>
<th>Features of the methodology</th>
<th>Possibility of application in its current form in Belarus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morningstar (Sustainalytics)</td>
<td>☒ ☒ ☒ ☒ ☒</td>
<td>+/-</td>
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</tr>
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<td>+/-</td>
</tr>
<tr>
<td>BIK Ratings</td>
<td>☒ ☒ ☒ ☒ ☒</td>
<td>+/-</td>
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</tbody>
</table>
The results obtained allowed us to draw the following conclusions: all methodologies can be accepted for assigning ESG ratings to industrial organizations in Belarus, however, they do not take into account the specifics of the formation of industry reporting and are difficult to calculate, and the existing rating agency of Belarus does not use quantitative criteria for evaluating indicators in the methodology. The creation of the author's methodology will allow for an assessment taking into account the noted features, which is an important step for the formation of a "green" economy and the implementation of the principles of sustainable development.

5 Conclusion

In the Republic of Belarus, rating activity is at the stage of formation. Its regulator is the National Bank of the Republic of Belarus. There is no regulation of ESG ratings in Belarus. The market of rating providers is rather poorly developed - there is only one rating agency in the country. ESG rating has not received significant distribution among business entities, due to a number of factors. Despite this, the prerequisites for its formation have already taken shape. For further development of rating in Belarus, it seems expedient to create a state rating provider. It is advisable to appoint the National Statistical Committee as the national coordinator for the ESG rating. This will allow using the rating results to justify the possibility of obtaining benefits and preferences from the state, improve the quality of the rating and avoid conflicts of interest. To conduct the rating, there is a need to create a national ESG methodology for rating business entities. A summary of the methodology developed by the authors for industrial organizations is given in the article and is a multi-category assessment of the relevance of indicators for selected blocks that correspond to ESG principles, and allows for a comprehensive assessment of organizations with ESG practices along the “Goals-Actions-Results” chain.

References

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