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Ответственные финансы: применение и вызовы для общества, правительств и корпораций

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Аннотация

Тема ответственных финансов становится важной проблемой функционирования финансовых систем. Возникает ряд интересных изменений в социальной, правительственной и корпоративной сферах, которые продвигают более этические и устойчивые принципы принятия финансовых решений, размещения ресурсов и капитала. Взрывной рост социально ответственного инвестирования (в том числе на базе факторов ESG: влияния деятельности компании-объекта инвестирования на окружающую среду, внимания к общественным интересам, социальной ответственности, прозрачности и эффективности корпоративного руководства) за последнее десятилетие подтверждает безусловную важность рассматриваемой темы в контексте распределения мировых потоков финансирования. Инвестиционные проекты в сегодняшнем мире оцениваются по широкому диапазону метрик, а не только исходя из потенциала финансовой выгоды. Государству также отведена важная роль в этой трансформации. Оно должно заниматься поддержкой положительных частных инициатив и переоценкой широкого спектра собственных проектов с учетом этих дополнительных факторов, которые в конечном итоге оказывают влияние на благосостояние населения. Все экономические агенты должны обращать внимание на происходящую трансформацию, чтобы не пропустить внедрение новых стандартов финансовой ответственности. Эти изменения представляют прекрасные возможности для мира финансов, хотя и связаны с некоторыми сложностями. В данной статье рассмотрены основополагающие принципы финансовой ответственности. Исследовано, как эти принципы формируют финансовую политику, с использованием конкретных примеров из социальной, государственной и корпоративной сфер. Акцентировано внимание на факторах, которые потенциально ограничивают единое принятие таких практик в мире.

Ключевые слова: финансовая ответственность, этические финансы, правительство, корпорация, общество, социально ответственное инвестирование, ответственное инвестирование, ответственные финансы

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Responsible finance: application and challenges for society, governments and corporations

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Abstract

The topic of Responsible Finance is becoming an important issue in the functioning of our financial systems. There are many interesting developments in social, governmental and corporate perspectives that promote more ethical and sustainable principles of making financial decisions, allocating resources and capital. The boom in ESG investing (taking into account Environmental, Social and Governance factors) over the last 10 years suggests the great importance of this topic for funding allocation worldwide. Investment projects are now assessed on a variety of metrics, not only based on their potential financial gains. Governments also have a role to play, as they support private initiatives and reconsider a huge variety of their projects to account for these additional factors that eventually impact population's welfare. All economic agents should pay attention to this transformation to not miss out on the new standards of financial responsibility. These changes present great opportunities for the world of finance, whilst having few drawbacks. In this article a closer look at the founding principles of financial responsibility is taken. Authors examine how these principles shape the financial policy with concrete examples from social, corporate and government perspectives. Authors also emphasize the factors that potentially limit the unitary acceptance of such practices around the world.

Keywords: financial responsibility, ethical finance, government, corporation, society, ESG investing, responsible investing, responsible finance

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Responsible Finance (RF) means providing financial services in accountable, transparent and ethical ways. One part of this broad concept is about making access to capital fair for financially deprived groups both in developed and developing countries. Responsible Finance further contains the so-called ethical finance, which not only takes into account common financial risks, but also considers environmental, governance and social factors. Moreover, RF is related to new types of alternative/ethical investments, which are now becoming more and more popular. The ideas outlined above have applications and implications for societies, corporations and government. Finally, all economic agents that make financial decisions, whether they are large conglomerate groups or small businesses, should at least be aware of these principles upon which they should guide their actions.

One of the biggest social applications of responsible finance is providing access to finance on fair and affordable conditions to people, who initially had little or no access to finance. These people live both in developed and developing countries, and they and their communities have no access to the mainstream financial system. They are not able to borrow money from commercial banks (for example, because of the lack of collateral) and so have a hard time financing the development of their communities. To fight this financial injustice and kick-start the development of deprived communities, networks of responsible financial providers are established, such as the organization named «Responsible Finance» in the United Kingdom, which supports a «network of over 50 finance providers, who are building resilient economies... and have real expertise about the local economies they are rooted in and serve»[5]. These non-mainstream financial providers replace the big banks in providing services such as helping:

• people on low incomes to manage their cash flow by providing loans and offering credit to savings schemes;
• entrepreneurs to start up and grow businesses, creating jobs, opportunities and economic growth;
• social enterprises to start up and grow contributing to economic, social and environmental good.

Responsible Finance mostly focuses on financial service providers, their practices and their clients. To get a deeper understanding of particular guidelines used in practice, we will have a look on a set of principles implemented by a global consulting company «MicroSave», that drives financial inclusion across the world. They phrase the core components of RF as:

• Client protection including offering appropriate financial services to meet the financial needs of the clients;
• Financial capability that enables clients to better understand the product and services offered and to take informed decisions. This also includes raising financial awareness among the clients and local communities;
• Social performance management, that can help organizations to optimize both financial and social results. This tool helps the firm to track its positive social impact;
• Offering high quality and appropriate services at fair prices to excluded and vulnerable market segments such as youth [4; 7].

The key themes of these approaches are ethical behavior and morally correct codes of conduct, disclosure, product and service quality, transparency and fairness of pricing, and respectful treatment of clients. The missions of many responsible finance participants may vary: the awareness of poor people, poverty reduction, empowerment of women, etc., but these are all certainly good causes. Therefore, RF schemes are often supported by governments to bring development to rural or deprived areas, for example, MicroSave works in partnership with the Indian Ministry of Consumer Affairs, Food and Public Distribution to design initiatives to alleviate poverty in India.

There are hardly any valid disadvantages to these schemes, as most of these helped people, who are excluded from the mainstream banking system anyway, so the big banks are not threatened by the competition from these companies.

Another application of responsible finance is government accounting and financing practices. The requirements to accountability and transparency in public expenses have grown significantly, that stimulates public organizations to be more effective and cost efficient, to improve governance, overall financial management and risk management [1]. For the government, responsible finance code of conduct should mean, that the government fairly assesses and reports the cost of its projects and policies. Cash flows from public projects should be discounted at the true cost of capital, which involves finding a project specific risk premium and time value of money [2]. The risk premium should be found by looking at private comparables to these projects. The time value of money should be evaluated as certain policies potentially assign more value to future welfare (e.g. student debt to improve education). In many cases borrowing risk-free rates are used for discounting, implying that cash flows are risk-free. Instead, cash flows should be discounted at the true cost of capital, so that project values are fair and incorporate that eventually the risk is shifted to the taxpayer. This is because in the bad state, the taxpayer bears the cost as the government would have to either lower spending, raise taxes or borrow (putting pressure on future taxpayers). Hence, the government should fairly and transparently assess the

cost of its projects and properly consider the risk associated with them, since eventually these are financed by the taxpayer, who should be informed and hold the government accountable.

A big challenge is finding a comparable risk-adjusted discount rate in each individual case. Private provision in some markets simply does not exist as government either outcompetes everyone or is the only willing participant. Moreover, market prices from private comparables might only represent the cost of privately borne risk and not consider other social risks (e.g. climate change), whereas the government has to consider everybody's welfare. Furthermore, it is also a question if the government can assign a lower cost to the risk than the market because it has greater diversification across projects, and can spread idiosyncratic risk through the tax system. Finally, it is debatable whether market prices can truly represent the long-term interests of the public (and so the government), since most people do not put enough value on long-term utility, hence, how different the time value of money should be is also a difficult question.

A different aspect of RF within the government framework is social and environmental responsibility of its investments. With regards to social responsibility, governments can be said to be good, as generally their investments and policies are aimed to improve the life of people. With regards to environmental responsibility, many governments still choose the cheapest way to implement a project and do not fully consider the eventual environmental risks and consequences of their spending in their financial models. Although this approach saves resources in the short run, however, puts environmental and financial pressure on future generations and the government in the long run. A clear example is environmental protests in a number of countries, which put public pressure on the governments to finance the construction of needed recycling facilities, which were not built in time before the problem became noticed.

From the corporate perspective, the main areas where principles of RF can be applied and considered are:

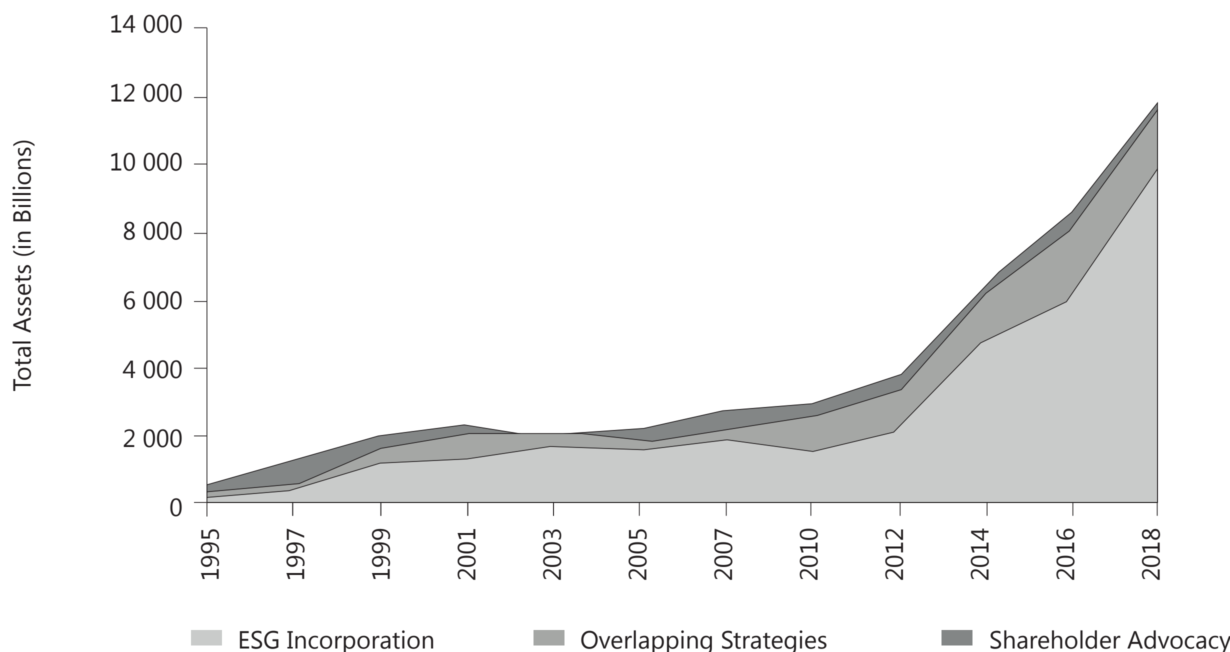
- Big financial and consulting institutions policies;
- Alternative/ethical investments;
- Financial management within companies.

Large financial institutions are positioned in the core of our financial systems. Changes to their practices are immediately reflected in the code of financial conduct of other agents in the economy. Therefore, it is crucial for them to behave responsibly and to promote a morally correct behavior, while looking for profitable opportunities. These two targets are becoming easier to achieve together than ever before as consumers in developed countries are now looking at the ethical side of the business, not just pure numbers. Consumers want banks to behave ethically and support good causes with their investments. Banks should be transparent, conduct responsible pricing, treat customers fairly, protect privacy of their clients and give honest financial advice. They should be self-regulators in embodying the best financial and moral practices across not only its employees, but also the businesses they finance. Today banks do not want to associate themselves with businesses with bad reputation or unethical image.

Consulting companies would also help to promote this image by recommending companies to produce and sell more "green" products, because this helps sales, as consumers, especially the young ones, do not want to buy unethical products (e.g. produced with child or unfairly paid labor). These ethical considerations matter a lot to millennial consumers as they give rise to the so-called «conscious capitalism», where purpose is prioritized over profits [3]. According to Deloitte's 2018 Millennial Survey, 80% of millennials believe that business success should be measured in terms of more than just financial performance, and should make a positive impact on society and the environment. This trend would lead to a positive shift in the business landscape for years to come.

A different large area of corporate financial responsibility is alternative/ethical investments. These are made by both institutional and retail investors, who recognize the importance and value attributed to delivering a measurable positive social and environmental impact on a sustainable basis. Currently, ethical investing is growing globally at an exceptional pace. According to the US SIF Foundation's 2018 Report on US Sustainable, Responsible and Impact Investing Trends, as of year-end 2018, more than one out of every four dollars under professional management in the United States—$12.0 trillion — was invested according to sustainable, responsible and impact investment strategies. From 2016 to 2018, sustainable, responsible and impact investing enjoyed a growth rate of 38 percent in the US (Figure 1).

Although this is a developed market, the rest of the world also looks impressive. It has been estimated by the Global Ethical Finance Forum, that there are over $27 trillion worth of assets under management globally on ethical basis. Hence, there is definitely a very serious demand for these strategies, which is mainly driven by the motivations of investors to aim for strong financial performance, but who also believe that these investments should be used to contribute to advancements in social, environmental and governance practices [6]. To sum up, we can only state the obvious, that these types of investments are beneficial for the world, and that it is both a healthy and a profitable practice for financiers to properly consider social/environmental impacts of their capital allocations.



Source: US SIF Foundation / *Источник: Фонд Сиф США*

Figure 1. Sustainable and Responsible Investing in the United States 1995–2018
Рис. 1. Устойчивое и ответственное инвестирование в США 1995-2018 гг.

Finally, considering financial management within companies, it should also be said that managerial practices should be responsible to clients and shareholders. Too often the compensation structure of top managers prioritizes short-term revenue growth over long-term profitability and the creation of enduring competitive advantage. Managers are often too focused on their perks and compensation packages including options, such that they are mainly focused on short term numbers and do not care as much about long term sustainable wellbeing of the company they manage. This misalignment of incentives leads to resources being allocated not in the most efficient and sustainable ways for the company, but more towards short term projects. This often leads to the company borrowing excessively to support ambitions of the CEO for growth, for example, by acquiring other companies. These deals are rarely as good as initially planned and generally acquirers tend to overpay, which then leads to future financial stress for the company. Overall, this means, that the shareholder often pays for the too optimistic ambitions of the management team. Financial responsibility in this context means that financial managers should be more realistic and conservative in good times, when access to capital is good, so that they don't get stuck in crisis times, when there is little capital, which is also more expensive because of the low risk-appetite of the market.

Additionally, honesty in financial operations and long-term view in everything financiers do are key to a sustainable future for the company. All consequences of actions should be analysed with a long-term view and their compliance to the company's overall strategy. This includes not only transparency in work, but also building trustworthy relations with suppliers (e.g. how promptly the company pays invoices), banks (debt service), government (tax payments etc.). In all their relations (with clients, other stakeholders) financiers must think and behave long-term. Obviously, poor financial management does not comply with responsible finance.

In terms of the challenges to these applications of financial responsibility in the corporate sector, the main ones are unwillingness to change to these new demands and the stereotype that all these new environmental/social considerations are expensive for the firm and represent extra work, whilst not giving much of the tangible benefit. However, reputation, whilst being intangible, eventually translates into money through clients and partnerships. It can be a competitive advantage that other companies would not be able to simply copy and so can attribute a great value to the business in the long run.

To conclude, whilst some parties can be unwilling to satisfy the new conditions of increasing financial responsibility and so find disadvantages in these changes (as with any change), the benefits greatly outweigh the few drawbacks that can be named. Arguments for

greater financial responsibility, whether they come from social, governmental or corporate considerations, are strong and clear. Financial systems allocate resources within our societies, and having their agents behave more sustainably, transparently, ethically and morally correct cannot be bad for the outcome. These developments will fuel progress around the world and help create a more secured and sustainable future both financially and environmentally.

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