



**METHODOLOGICAL APPROACHES TO CORPORATE
ESG RATING ASSESSMENT**

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ABSTRACT	KEYWORDS
<p>The article examines the role of the ESG approach in achieving the Sustainable Development Goals, substantiates the feasibility of ESG-based investments, identifies challenges associated with assessing corporate ESG ratings, and highlights the benefits of adopting this approach within the national economy.</p>	<p>Sustainable development, ESG factors, green economy, green investments, responsible investments, green financing, green projects.</p>

Introduction

In recent years, participants in international financial relations have been paying increasing attention to the Sustainable Development Goals (SDGs). Governments, regulatory bodies, development institutions, private corporations, stock exchanges, and financial market participants worldwide are actively operating within the framework of tasks set by the UN. Particularly, based on the UN initiative, the Principles for Responsible Investment (PRI) have been developed, integration of ESG factors into investment activities is widespread, and relevant recommendations are taking center stage. Many of the world's largest corporations support this initiative. Furthermore, companies strive to ensure that their primary goals align with the interests and needs of members of society by integrating ESG factors into their investment decision-making processes.

Unlike developed countries, in our country's business practice, integrating investment practices that account for ESG principles is still relatively uncommon. This requires economic entities to determine corporate ESG ratings and rankings, as well as to develop financial incentive mechanisms for implementing ESG principles into corporate activities.

Literature Review on the Topic

Today, global economic challenges and the resulting financial instruments serve to address sustainable development goals. Institutional investors emphasize conducting business activities based on ESG factors—namely environmental, social, and corporate governance criteria. International financial institutions support the disclosure of financial performance indicators of companies, particularly data

related to ESG approaches, which is increasingly becoming part of state policy in most governments. The evidence presented below confirms these sources.

Currently, structural changes in all sectors of the world economy are being implemented through the introduction of sustainable development tools. Today, sustainable development has emerged as a crucial concept, becoming a practical pathway in the business and investment community. This, in turn, requires the effective formation and development of the Environmental, Social, and Governance (ESG) investment market [1].

Companies are experiencing external environmental impacts supporting the ESG approach, along with growing interest from state policy and foreign investors in this field, which is becoming of crucial importance [2].

Responsible investments or ESG investments are selected based on environmental, social, and governance factors during the investment decision-making process. Economic agents rely on environmental protection, social justice, and human rights, as well as corporate financial indicators when making investment decisions; hence, these companies rely on principles of environmental protection in practice [3].

Research Methodology

The methodological foundation of the study includes theoretical concepts involving corporate sustainability, green project financing, and the application of ESG factors in investment decision-making, alongside tracking theoretical perspectives related to determining corporate ESG ratings. In the research process, methods of relatively systematic approach such as graphic representation, classification and comparison, analysis, and synthesis were utilized to illuminate the topic.

Analysis and Results

Recent global challenges demand that any income generated from business activities must be aligned with environmental protection, social justice, and human rights norms—meaning that public opinion is increasingly shifting toward the ESG approach. The practical application of these ESG principles is directly related to financial activities.

Leaders of the G20 countries adopted the "Roadmap for Sustainable Finance" on October 31, 2021. The roadmap includes 5 pillars and priority directions [4]:

1. Developing financial markets and aligning investments with SDG goals;
2. Enhancing opportunities and consequences regarding sustainable development, as well as establishing report departments by filling info gaps for risk assessment, containment, and reliability;
3. Assessing and managing risks associated with sustainable development and climate change;
4. Increasing the role of international financial institutions, encouraging and regulating measures taken by governments;
5. Cross-cutting issues.

Over the past ten years, private investor funds in developed countries have paid particular attention to corporate ESG ratings when making decisions regarding directions supporting UN SDGs and projects serving "green" growth.

In international practice, corporate ESG ratings are determined by international agencies and national rating agencies.

In our research, we will look into the methodology of several companies leading the international market in determining ESG ratings. Specifically, the following sources are utilized by MSCI (Morgan Stanley Capital International) investment research firm to determine ESG ratings (Figure 1).

Figure 1. Sources utilized by MSCI to determine corporate ESG ratings[5]

1.	<i>Data officially provided by the company regarding ESG:</i>
-	Voluntary disclosure of corporate data according to the ESG reporting concept;
-	Disclosure of corporate governance data;
-	Corporate data not included in the ESG system.
2.	<i>Data obtained from other sources regarding the company:</i>
-	Data on product-related risks;
-	Data on macro-risks;
-	Government regulatory agency data;
-	Public data regarding ongoing incidents.
3.	<i>Data classification regarding company activities:</i>
-	Description regarding product segments;
-	Description regarding geographic segments;
-	Other general descriptions regarding company activities.

MSCI relies on the analysis of data from 3 directions to determine corporate ESG ratings. These include official data provided by the company regarding ESG, information obtained from other sources about the company, and descriptions of the company's activities. In determining company ratings, data regarding sub-sectors included within the 3 directions mentioned above is analyzed. In this process, minimum and maximum scores are established to determine the company's score for each sub-sector category, and their evaluation criteria are provided.

Official data provided by companies regarding ESG is part of globally standardized information sources. Unfortunately, information obtained from other sources about the company and descriptions regarding company activities are not standardized, and there are several issues awaiting solutions in this regard.

MSCI retrieves information regarding sub-sectors included in categories 2 and 3 from various sources to determine corporate ESG ratings. Specifically, data regarding ongoing incidents is obtained from news, announcements, and articles presented in the mass media. Data regarding macro-level risks is sourced from reports of the World Resources Institute, and plans regarding greenhouse gas emission reductions are tracked through indicators related to the company's achievement of corporate targets based on the UN Climate Change Secretariat Framework Agreement. The company's framework system relies on obtaining data from SEC DEF 14A reports submitted to the US Securities and Exchange Commission, corporate annual reports, or shareholder annual meetings voting results 8-K SEC. Furthermore, MSCI researchers rely on data from other regulatory organizations such as the WHO, Eurostat reports, US EPA reports, and the CEDA database, alongside research conducted by MSCI ESG Research.

Transitioning data related to ESG to a globally standardized system can provide additional benefits to economic entities and investors.

According to the MSCI methodology for corporate ESG rating assessment, information officially provided by the evaluated company accounts for approximately 50 percent of the total data used to determine the ESG rating. Under such circumstances, it is necessary for investors to utilize independent information sources to avoid a one-sided perception of corporate risks [6].

According to the corporate ESG rating assessment methodology of MSCI, the rating is evaluated on a scale from AAA to CCC across 7 categories and 3 main tiers (high tier, middle tier, low tier), ranging between 2.0 and 0.5 points.

Table 1. Corporate ESG rating assessment by MSCI [7]

Rating Group	ESG Rating	ESG Category	ESG Rating Grade
1.	AAA	High tier	2
2.	AA		2
3.	A	Middle tier	1
4.	BBB		1
5.	BB		1
6.	B	Low tier	0,5
7.	CCC		0,5

Today, in global practice, corporate ESG ratings are determined by various agencies, financial, and non-financial organizations (see Figure 2).

Figure 2. ESG rating assessment descriptions of various international economic entities [8]

Agencies	ESG Rating	Description of Rating Assessment
MSCI (USA)	MSCI ESG Rating	Evaluates how well companies manage financially material ESG risks and opportunities.
Sustainalytics (Netherlands)	ESG Risk Rating	Assesses the exposure of companies to material industry-specific ESG risks and evaluates how well companies manage those risks.
S&P Global (USA)	ESG Score	S&P Global Corporate Sustainability Assessment process-based comprehensive assessment (assesses sustainable development performance on an annual basis).
Refinitiv (UK)	ESG Score	Transparent and clear assessment of a company's sustainable development performance based on publicly available data.
AKRA (Russia)	ESG-assessment	Assessment of a company's environmental impact, social responsibility, or corporate governance practices, as well as the compliance of its operations with sustainable development principles and strategies.
EXPERT RA (Russia)	Rating ESG	Assessment of the level of environmental, social, and corporate governance risks, and compliance with sustainable development principles when making decision-making processes in a company (region).
NRA (Russia)	ESG-rating	Evaluates the integration of sustainable development goals into management practices and strategy, including environmental protection, social protection, and corporate governance risk management, as well as checking compliance with relevant corporate sustainable development goals.
NRA (Russia)	ESG-rating	Formulates an opinion on the company's compliance with sustainable development principles, international and Russian standards in this field, based on experience in managing corporate environmental and social business risks, as well as corporate governance practices.

Based on the information presented in Figure 2, we can see how diverse the approaches are regarding corporate ESG rating assessment. Specifically, while some credit rating agencies include corporate ESG rating assessment within their general research on company operations, other companies focus specifically on tracking industry risks, or other agencies evaluate corporate ESG performance to establish global standards in this area. Furthermore, companies specialized in evaluating corporate performance criteria coordinate their assessment methodologies with each other.

However, descriptions derived from developing corporate ESG rating frameworks can differ significantly from one another, preventing direct comparison. This is primarily because target objects evaluated by companies do not align perfectly.

Now let us direct our attention to the analysis of corporate activities in the Russian Federation regarding ESG rating assessment. Currently, there are 7 companies active in Russia providing ESG ratings. Six of them are rating agencies, and one is an analytical company. These companies regularly operate by assigning ESG ratings to economic entities.

The initial practice of assessing corporate ESG ratings in Russia was launched in 2017, and during that year, only 5 companies were assigned an ESG rating; by 2023, this number reached 43 companies. In Russia, between 2017 and 2023, corporate ESG ratings were standardized for a total of 80 companies [9].

It is worth noting that the Central Bank of the Russian Federation provided recommendations to financial institutions regarding corporate ESG rating assessment, aimed at improving methodology. These recommendations focused on calculating corporate environmental (E), social (S), and governance (G) factor weights, identifying primary indicator importance, and building the rating assessment methodology on high-quality indicators.

In Russia, economic entities are divided into 3 main groups when conducting ESG rating assessments based on their fields of activity. Specifically, financial companies (commercial banks, insurance companies, investment companies, stock exchanges, etc.), non-financial companies (industrial enterprises, economic real sector companies, other enterprises), and regional and local government bodies are categorized separately for ESG rating assessments.

If we direct our attention to the methodologies of "AKRA", "Expert RA", and "NRA" agencies, we can observe that they have shared characteristics and distinct features. Specifically, "AKRA" agency, like other agencies, engages in assigning corporate ESG ratings, and when providing rating feedback, it pays specific attention to assessing global risks.

"Expert RA" and "NRA" agencies allocate specific attention to financial and non-financial companies, as well as regional government bodies within their framework of tracking ESG ratings. They analyze corporate indicators based on environmental (E), social (S), and corporate governance (G) pillars. These agencies evaluate companies based on the number and weight of corporate indicators used in the assessment process.

Today, the number of organizations establishing corporate ESG ratings on a global scale is increasing year by year. In turn, such service providers differ from one another based on their corporate ESG rating assessment approach and baseline indicators. Furthermore, some organizations calculate the official request based on publicly available open-source data. Therefore, during corporate ESG value assessments, substantial discrepancies can arise between results.

For example, the research conducted by Florian Berg at the "MIT Sloan School of Management" demonstrates that corporate ESG rating alignments across various agencies face a correlation of

approximately 0.61. S&P Global analyzes 1,200 companies, while MSCI and Sustainalytics evaluate corporate CSRHub data, revealing a weak correlation (0.32) between their metrics. Typically, credit ratings show a 99% correlation with each other. For comparison, Moody's and S&P credit ratings display a strong positive correlation (0.90) [10].

Therefore, market participants relying on corporate ESG ratings face a necessity to thoroughly examine the improvement of ESG-related standards and rating assessment methodologies, to avoid making blind financial decisions without factoring in ESG.

PROPOSALS AND RECOMMENDATIONS

1. Integrating ESG principles into investment processes in our country is currently in its initial stage. In our view, the state should play a leading role in such activities. For this purpose, it is necessary to establish legislative frameworks and financial incentive foundations for integrating ESG principles into corporate activities.
2. There is a lack of a unified standard package or evaluation methodology for analyzing corporate ESG indicators across economic entities, and there are gaps in corporate data availability. Therefore, it is useful to study foreign experience to unify ESG data, establish methodologies for assessing ESG ratings, and fill relevant gaps.
3. In Uzbekistan, it is necessary to establish conditions regarding ESG requirements across the following operational areas:
 - Initial phase: large and medium entities, subsequent phase: small business entities must be required to submit corporate ESG reporting;
 - Large and unique investment projects must mandatory undergo technical-economic substantiation (business plan) reflecting ESG factor criteria;
 - Commercial banks, insurance companies, and investment funds must organize their investment portfolios based on ESG criteria.

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