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IHOR SHMORHUN
Taras Shevchenko National University of Kyiv (Ukraine)
Faculty of Economics
https://orcid.org/0000-0003-0371-3607
e-mail: ihor.shmorhun@gmail.com

OLENA KANISHCHENKO
Taras Shevchenko National University of Kyiv (Ukraine)
Faculty of Economics
https://orcid.org/0000-0002-9189-5502
e-mail: okanisch@ukr.net

The Development of Sustainable International Portfolio Investing Processes

Abstract. The article characterizes the peculiarities of development of sustainable international portfolio investing processes. The paper put forward an idea that United Nations played and continue play a crucial role in the development of modern sustainable international portfolio investing. Key United Nations initiatives such as United Nations Global Compact, Millennium Development Goals (MDG), Sustainable Development Goals (SDG), Sustainable Stock Exchanges (SSE) that contributed to the development of the concept of sustainable international portfolio investing are described. The main goals and principles of key United Nations initiatives are highlighted. Geographically, United States and European Union members are the main countries contributed to the origin and development of sustainable international portfolio investing. The article concludes that the goals and principles of United Nations initiatives are in line with modern environmental, social and governance (ESG) criteria. The key periods and actions of the origin and further development of sustainable international portfolio investing are indicated.

Keywords: sustainable international portfolio investing, global economy, United Nations initiatives, ESG criteria, sustainable development goals, environmental, social and governance (ESG) criteria

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1. Introduction

The last century was marked as a century of wars, as in the XX century world experienced 2 world wars, several dozen uprisings, conflicts and regional wars. Each war or armed uprising always brings death, destruction and generally negative consequences for all the participants, both in terms of social, demographic, political, economic and environmental aspects.

Unfortunately, not all participants in armed conflicts realize the global scope and scale of the consequences. However, those who understand the possible consequences and the importance of overcoming them, try to convey this to those, who do not.

From 1959 to 1975, the Vietnam War between North and South Vietnam took place in the Asian region, namely in Vietnam. Some sources also refer to this war as the Second Indochina War (Anderson & Singhal, 2020, p. 2–3). In the 1970s, one of the world's leading countries, the United States, intervened in this military conflict on a full scale. Having powerful and modern weapons in its arsenal, the United States did not shy away from using chemical weapons, which caused considerable discontent in certain segments of American society, especially among supporters of the anti-war movement. Those interested in ending the war wrote letters and drafted resolutions on the non-use of chemical weapons and the early cessation of hostilities.

Public sentiment in the United States, in particular among supporters of the anti-war movement, contributed to the formation and spread of sustainable investing, which was primarily identified as socially responsible investing. As a result, in 1971, the first sustainable mutual fund was founded in the United States, and a year later, in 1972, a list of socially responsible stocks was published in a scientific journal.

The new XXI century has been going on for 23 years, but, unfortunately, full-scale wars continue. Thus, on February 24, 2022, the Russian Federation launched a full-scale war against Ukraine, killing Ukrainians, destroying Ukrainian infrastructure, using prohibited weapons, and creating an environmental disaster in Ukraine. However, people should already be aware of all the existing and potentially possible consequences of the war for Ukraine, European region and entire world and ways to overcome them, one of which should be sustainable international investing, both direct and portfolio, as this trend was also widespread during and after the Vietnam War, as it aims not only to maximize profits, but also to achieve certain environmental, social and governance goals.

2. Analysis of Recent Researches and Publications

Over the past 20 years, the scientific discussion of domestic and foreign scholars, international economic and analytical organizations regarding sustainable international portfolio investing has been revitalized. In particular, the works of Bulkot O.V., Vorontsova A.S., Kaminsky A.B., Markevich K., Leus D.V. and others are devoted to this issue. Among foreign researchers, it is worth highlighting Elkington J., Matos P., Bauer, R., T. Ruof, and P. Smeets and many others. However, the issue of the peculiarities of the development of sustainable international portfolio investing processes is not considered in a structured and comprehensive manner in scientific works, in particular, the issue of the impact of the United Nations (UN) and its initiatives on the development of the concept of sustainable international portfolio investing is not disclosed.

3. Main Results of the Study

Sustainable international portfolio investing appeared and became widespread in the early 70s of the XX century, but this concept has become the most flourishing, globally spread and recognized in the current XXI century. It should be noted that sustainable international portfolio investing, compared to responsible international portfolio investing, is much wider and includes not only ESG criteria and strategies of the companies, but also some (or all) of United Nations principles of sustainable development in their business activities (Bulkot, 2022, p. 6).

One of the largest known international organizations, the United Nations, and its initiatives, such as the UN Global Compact, the Millennium Development Goals (MDGs), and the Sustainable Development Goals (SDGs), played a significant role in this.

In July 2000, the United Nations launched the UN Global Compact, which has become the largest initiative to promote sustainable and socially responsible corporate practices among companies across all member states of the international organization. As of August 2023, 23,028 corporations and organizations from 166 countries have joined the Global Compact.

The UN Global Compact is based on 10 principles in the areas of human rights, labour, environment and anti-corruption. The goals of the participants and stakeholders of the Global Compact are to implement the 10 principles in their business activities around the world and to support the broader goals of the UN, which were the Millennium Development Goals and are currently the Sustainable Development Goals (Table 1).

Table 1. Principles of the UN Global Compact

Human rights	Labour	Environment	Anti-Corruption
1. Businesses should support and respect the protection of internationally proclaimed human rights.	2. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. 3. The elimination of all forms of forced and compulsory labour.	4. Businesses should support a precautionary approach to environmental challenge. 5. Undertake initiatives to promote greater environmental responsibility.	6. Businesses should work against corruption in all its forms, including extortion and bribery.
7. Make sure that they are not complicit in human rights abuses.	8. The effective abolition of child labour. 9. The elimination of discrimination in respect of employment and occupation.	10. Encourage the development and diffusion of environmentally friendly technologies.	

Source: Compiled by the authors based on UN Global Compact (2023)

This initiative of UN has greatly influenced and accelerated the development of sustainable international portfolio investing, as the latter is the acquisition of foreign securities of issuers that conduct business in compliance with environmental, social and governance (ESG) standards that correlate with the groups of principles of the UN Global Compact. On the one hand, the Global Compact's existence within the framework of sustainable international portfolio investing helps investors who are looking for investment objectives not only in terms of desired economic performance and risk, but also in terms of achieving certain ESG criteria. On the other hand, this initiative also helps public companies whose securities are traded on stock exchanges to inform potential investors and other stakeholders not only about their financial performance, but also about their environmental, social and governance achievements.

Another UN initiative that also contributed to the spread of sustainable international portfolio investing is the Millennium Development Goals (MDGs), which were signed in the same year 2000 during the United Nations Millennium Summit. This declaration defined the global Millennium Development Goals to be achieved by 2015. This event was crucial, as it laid the foundation for the process of achieving positive results by the international community in those areas where there was the greatest unevenness in global human development. The MDGs outlined global directions for strategic development in many areas, including social and environmental ones (Figure 1).

According to each MDG, the corresponding targets were formed, with a total of 21 targets assigned to each UN member state.

The work on the implementation and achievement of the MDGs by UN member states lasted until 2015, after which the results of their achievement were summarized. According to the existence of a gap in the development of countries, there was also a gap in the results of achieving the MDGs — some countries succeeded in many goals, fulfilled most of the tasks, while other countries did not even begin to fulfill the tasks and achieve the goals.

To eliminate extreme poverty and hunger	To achieve global primary education	To empower women and promote gender equality	To reduce child mortality
To promote maternal health	To fight malaria, HIV/AIDS, and other diseases	To promote environmental sustainability	To develop a universal partnership for development

Figure 1. Millennium Development Goals (MDGs)
Source: Compiled by the authors based on ILO (2023)

The MDGs have contributed to the growth and popularization of the sustainable international portfolio investing market as they aim to overcome global challenges and environmental, social and governance disparities between countries, which also has an impact on industries and individual companies.

The world has changed a lot in the 15 years since the MDGs were first set. One of the most crucial events of this period was the global financial crisis, which only increased the unevenness of development between countries. As a result, in September 2015 the UN General Assembly approved a new project called the Sustainable Development Goals (SDGs).

It is obvious that the Sustainable Development Goals have replaced the Millennium Development Goals and are also designed for 15 years — until 2030. However, the SDGs include a much larger number of goals and targets — 17 and 169 respectively.

The key global goal of the SDGs, like the MDGs, is to overcome poverty, protect the environment, and improve health. The new 17 Sustainable Development Goals are more specific and cover some new areas that were not yet so relevant at the beginning of the XXI century (Figure 2). It should be understood that these goals are interrelated — the achievement of some goals will lead to the success of others.

Both the Millennium Development Goals and the Sustainable Development Goals are key areas of development for countries, and for a long time, only governments were responsible for their implementation. However, since the formation of the SDGs, as well as the development of companies and their growing influence on the global economy, the responsibility for the implementation of these goals has begun to spread to individual industries and companies, which, in turn, have begun to integrate the SDGs into their strategies and invest in achieving these goals. For comparison, as of mid-August, 2023, Apple's market capitalization was USD 2.8 trillion (Investing.com, 2023), while the nominal GDP of the African region was USD 2.99 trillion. Such comparisons emphasize the fact that today large companies, in particular transnational corporations (TNCs), are very important and influential players in the global economic arena, and therefore they should be responsible for sustainable development, implementation and achievement of the SDGs.

No poverty	Zero hunger	Good health and well-being	Quality education	Gender equality
Clean water and sanitation	Affordable and clean energy	Decent work and economic growth	Industry, innovation and infrastructure	Reduced inequality
Sustainable cities and communities	Responsible consumption and production	Climate action	Life below water	Life on land
	Peace, justice and strong institutions		Partnership for the goals	

Figure 2. Sustainable Development Goals (SDGs)

Source: Compiled by the authors based on UNDP (2023)

The diversity of companies by industry is quite wide. Accordingly, depending on the industry in which the company operates, its geographical location, and its available financial and human resources, each company separately determines for itself which of the 17 existing Sustainable Development Goals are the most relevant and prioritized.

UN initiatives such as the Global Compact, the Millennium Development Goals, the Sustainable Development Goals, and others have not only contributed to the development of sustainable international portfolio investing, but have also been integrated into this concept, especially with regard to key goals and principles.

According to the definition, sustainable international portfolio investing is the process of investing funds by investment market participants by purchasing foreign securities of issuers that conduct business in compliance with environmental, social and governance (ESG) standards or green securities with the priority goal of maximizing profits (Shmorhun, 2022, p. 56). According to the three ESG criteria (environmental, social and governance) (Boffo & Patalano, 2020, p. 21), the corresponding groups of principles of the UN Global Compact and the Sustainable Development Goals can be attributed to them, as they, unlike the Millennium Development Goals, are still relevant today (Table 2).

Table 2. ESG criteria and corresponding principles of the UN Global Compact and the Sustainable Development Goals

	Environmental (E)	Social (S)	Governance (G)
UN Global Compact	▸ Environment	▸ Human rights ▸ Labour	▸ Anti-corruption
Sustainable Development Goals	▸ Clean water and sanitation ▸ Affordable and clean energy ▸ Responsible consumption and production ▸ Sustainable cities and communities ▸ Life below water ▸ Life on land ▸ Climate action	▸ No poverty ▸ Zero hunger ▸ Good health and well-being ▸ Quality education ▸ Gender equality ▸ Peace, justice and strong institutions ▸ Reduced inequality ▸ Decent work and economic growth	▸ Industry, Innovation and Infrastructure ▸ Partnership for the goals

Source: Developed by the authors

The concept of sustainable international portfolio investing has become one of the key trends in the international investment market, primarily due to the focus on those areas of life where there are real problems and inequalities, both at the state and corporate levels. In addition, it is also worth noting the infrastructure of sustainable international portfolio investment, which is growing and improving every year.

One such example is the Sustainable Stock Exchanges (SSE) initiative, which dates back to 2004. The SSE is a learning platform for exploring how exchanges, in cooperation with investors, regulators and companies, can improve corporate transparency and, ultimately, company performance in accordance with ESG criteria and promote sustainable investment. This initiative is organized by the United Nations Conference on Trade and Development (UNCTAD), the UN Global Compact, the United Nations Environment Programme Finance Initiative (UNEP FI) and the Principles for Responsible Investment (PRI). Partners of this initiative include 122 stock exchanges and 16 regulatory authorities in different countries (SSE, 2023).

Another example is financial instruments, such as shares and bonds of "sustainable" companies, i.e. those that operate in compliance with ESG criteria and have high scores on various ESG ratings, as well as "green" government bonds. The value of green bonds issued globally has increased dramatically over the past few years. In 2014, green bonds worth USD 37 billion were issued. In 2021, this figure peaked at approximately USD 582 billion and has declined slightly in 2022 — to 487 billion USD (Statista, 2022; World Bank, 2019). In addition to classical financial instruments, sustainable or ESG stock indices (e.g., S&P 500 ESG, FTSE4Good Index, etc.) are also popular in sustainable international portfolio investing.

As a result of the growth and development of the sustainable international portfolio investing market the following strategies of sustainable investment were formed, according to IISD:

- Negative/exclusionary screening: Exclusion of certain sectors, practices or companies from the investable universe based on ESG criteria;
- Positive/best-in-class screening: Including companies and projects that have a superior ESG performance relative to their peers;
- Norms-based screening: Exclusion of companies and projects with a business practice not in line with international norms;
- ESG integration: Explicit and systematic inclusion of ESG risks and opportunities in financial analysis and investment decision making;
- Sustainability-themed investing: Investing in themes and economic activities that are directly related to sustainability;
- Impact investing: Investments with the intention to achieve positive and measurable ESG impact;
- Corporate engagement: Active shareholder engagement with companies to influence their corporate behaviour on ESG issues (International Institute for Sustainable Development, 2020, p. 4).

In general, we can briefly periodize the events that contributed to the formation and development of the sustainable international portfolio investing market (Figure 3).

Thus, the United Nations has played and continues to play an important role in the development of sustainable international portfolio investing. As for individual countries or groups of countries that have contributed to the formation and development of sustainable international portfolio investing, it is worth mentioning the United States, where this concept was launched, and today the largest number of sustainable investment funds and stock indices are concentrated there. It is also worth noting the role of the European Union, since it is within the EU that certain directives, regulations and requirements for the regulation of sustainable international portfolio investing have been adopted in recent years at the corporate and governmental levels.

70s of the XX century	▸ The first sustainable mutual fund is founded in the USA ▸ A list of socially responsible stocks appears in an American scientific journal Business & Society
80s of the XX century	▸ The American Forum for Sustainable Investing was founded ▸ A coalition of environmentally responsible economies is founded in the United States
90s of the XX century	▸ One of the first sustainable stock indices, the Domini 400 Social Index, is launched ▸ The number of sustainable investment funds exceeds 30, with assets under management of over USD 2 billion
2000–2010	▸ UN-supported initiatives such as the UN Global Compact, the MDGs, the Principles for Responsible Investment, etc. ▸ The number of sustainable investment funds exceeds 60 ▸ Green bonds issued by the WB appear on the stock market
2011–2020	▸ UN presents the Sustainable Development Goals ▸ European Commission presents its action plan for sustainable finance
2021 year – today	▸ The EU adopted the Sustainable Finance Disclosure Regulation and the Corporate Sustainability Reporting Directive ▸ Consolidation of sustainability standards in the US

Figure 3. Periodization of the formation and development of sustainable international portfolio investing

Source: Compiled by the authors based on Anderson & Singhal (2020), Puaschunder, (2019), Morningstar (2022), TechTarget (2023), Townsend (2020)

So, the key features of the development of sustainable international portfolio investing processes are that the origin of it came from the United Stated in 70s of the XX century during and as a result of Vietnam War. In the beginning of XXI century and until today United Nations play a crucial role in the development of sustainable international portfolio investing processes mainly via their initiatives, for instance, UN Global Compact, Millennium Development Goals, Sustainable Development Goals, etc. Nowadays, European Union countries are also contributed to the growth of sustainable international portfolio investing market with certain regulatory documents that have already been adopted, for example, Sustainable Finance Disclosure Regulation and Corporate Sustainability Reporting Directive.

4. Conclusions

Sustainable international portfolio investing as a concept appeared in the early 70s of the twentieth century, but it has become the most popular, widely spread and recognized in the XXI century. One of the largest known international organizations, the United Nations, and its initiatives, such as the UN Global Compact, the Millennium Development Goals, and the Sustainable Development Goals, played a crucial role in this.

An important role in the formation and development of the concept of sustainable international portfolio investing was played by such countries and associations of countries as the United States, where this concept and its first infrastructure elements appeared, and where the largest number of sustainable investment funds and stock indices are currently concentrated, as well as the EU, which is currently a leader in the development and implementation of appropriate regulation at the state and corporate levels.

The goals and principles of such UN initiatives as the UN Global Compact, the Millennium Development Goals and the Sustainable Development Goals are in line with modern ESG criteria, compliance with which is one of the key objectives of sustainable international portfolio investing.

As a result of the growth and development of the sustainable international portfolio investing market several sustainable investments strategies were developed — negative/exclusionary screening, positive/best-in-class screening, norms-based screening, ESG integration, sustainability-themed investing, impact investing, corporate engagement.

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Rozwój procesów zrównoważonych międzynarodowych inwestycji portfelowych

Streszczenie. W artykule scharakteryzowano specyfikę rozwoju procesów zrównoważonych międzynarodowych inwestycji portfelowych. W rozwoju tym odegrała i nadal odgrywa kluczową rolę Organizacja Narodów Zjednoczonych. Podkreślono główne cele i zasady kluczowych inicjatyw tej organizacji. Opisano najważniejsze z tych inicjatyw, takie jak United Nations Global Compact, Millennium Development Goals (MDG), Sustainable Development Goals (SDG), Sustainable Stock Exchanges (SSE), które przyczyniły się do rozwijania koncepcji zrównoważonych międzynarodowych inwestycji portfelowych. Swój udział w powstaniu i rozwoju zrównoważonego międzynarodowego inwestowania portfelowego mają głównie Stany Zjednoczone i kraje Unii Europejskiej. W artykule stwierdzono, że cele i zasady inicjatyw ONZ są zgodne z nowoczesnymi kryteriami ESG: środowiskowymi, społecznymi i ładu korporacyjnego (zarządczymi). Wskazano kluczowe okresy i działania związane z narodzinami i dalszym rozwojem zrównoważonych międzynarodowych inwestycji portfelowych.

Słowa kluczowe: zrównoważone międzynarodowe inwestycje portfelowe, gospodarka globalna, inicjatywy Organizacji Narodów Zjednoczonych, cele zrównoważonego rozwoju, kryteria środowiskowe, społeczne i zarządcze (ESG)