

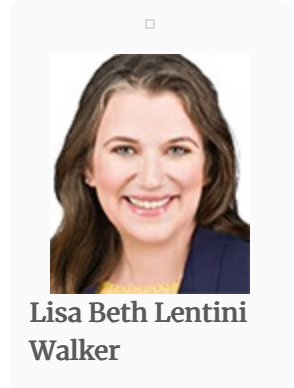
CEP Magazine – August 2022 ESG and war

By Lisa Beth Lentini Walker

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The *Cambridge Dictionary* defines “war” as “armed fighting between two or more countries or groups.”^[1]

Not all wars are formalized with official declarations. Oftentimes, there are euphemisms used such as “uprising,” “insurgency,” or “special military operation.” That said, not every ongoing armed conflict is classified as a war. Looking briefly at commonly accepted definitions, Uppsala Conflict Data Program defines “war” as “a state-based conflict or dyad which reaches at least 1000 battle-related deaths in a specific calendar year.”^[2]



At any given time, armed conflict can relate to civil war, terrorism, drug wars, boundary disputes, and many other causes. But how do environmental, social, and governance (ESG) matters and war interact?

The Russian invasion of Ukraine has had and will continue to have impacts around the world. While the tragedy and impacts continue to be felt, there is a question about what ESG professionals and compliance leaders could have or should have known about the risks that were emerging.

According to a Bloomberg report, on the eve of the invasion, about \$8.3 billion in funds meeting European ESG standards were in Russia, often on the basis of ratings from companies such as Sustainalytics and MSCI Inc. The figure is based on an analysis by Bloomberg of roughly 4,800 ESG funds representing more than \$2.3 trillion in total assets.^[3]

Since this is the first war in Europe since ESG became a bigger trend in the markets (and you could argue Europe is where ESG is more advanced in the world), many people believe how this plays out will mark the ESG movement for the future. Here are some questions that I think provide interesting food for thought.

- Will this war trigger a faster transition toward clean energy and climate change initiatives?
 - It seems likely that in many places there will be transitions to less fossil fuel dependence and reporting on environmental impact.
- Should political risk and international conflict be a bigger part of ESG and compliance risk assessments?
 - Some ESG data providers had been warning about controversy risks associated with human rights, free speech, and other mainstays of ESG and compliance programs that appeared weak or lacking in advance of the invasion, but that didn't stop ESG investors from buying into many Russian securities or stop companies from investing. Similarly, many compliance programs focused on the minimum legal position rather than on the overall values/ethics concerns. Should these risks be deal breakers or at least considered higher risk in the future?

- Is it too late to unring the bell? Are past investments and compliance decisions partly funding this war?
 - There is a lot of discussion on whether prior investments of assets and resources are funding the military efforts.

The lessons that need to be learned will only be seen in hindsight. We are living history and will be doomed to repeat it if we don't learn the lessons this time.

¹ “war,” *Cambridge Dictionary*, accessed June 6, 2022, <https://dictionary.cambridge.org/us/dictionary/english/war>.

² “UCDP Definitions,” Department of Peace and Conflict Research, Uppsala University, accessed June 6, 2022, https://www.pcr.uu.se/research/ucdp/definitions/#tocjump_10307430139226792_53.

³ Alastair Marsh and Frances Schwartzkopff, “ESG Funds Had \$8.3 Billion in Russia Assets Right Before War,” Bloomberg, March 8, 2022, <https://www.bloomberg.com/news/articles/2022-03-08/esg-funds-had-8-3-billion-in-russia-assets-right-before-the-war>.

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