SUSTAINABILITY HANDBOOK
FOR BUSINESSES

AMCHAM | AMERICAN CHAMBER OF COMMERCE IN AZERBAIJAN

sustainera solutions

SUSTAINABILITY HANDBOOK FOR BUSINESSES

Baku 2024

Table of Contents

AMCHAM
AMERICAN CHAMBER OF
COMMERCE IN AZERBAIJAN

About AmCham

AmCham recognizes the critical importance of businesses in addressing global challenges such as climate change and sustainability. It is imperative for businesses to understand their role in shaping climate policies, contributing to sustainability efforts and leveraging opportunities for innovation and growth. By fostering dialogue and collaboration among businesses, policymakers and stakeholders, the Chamber seeks to catalyze meaningful action towards a more sustainable and resilient future.

AmCham's Sustainable Development and Corporate Impact Committee seeks to find and promote the appropriate balance between the economic, environmental and social aspects of the business community to ensure sustainability for current and future generations. The Committee facilitates a variety of initiatives aimed at educating and supporting businesses in their journey towards sustainability. The Committee is actively involved in advocacy for enhanced sustainable business practices both within Azerbaijan and internationally, advocating for policies that support sustainable development. It also plays a crucial role in mobilizing the business community, encouraging companies to take proactive steps towards a more sustainable operational model. Through capacity-building initiatives the Committee helps businesses to build the necessary skills and knowledge to integrate sustainability deeply into their operations. Through its comprehensive approach and dedicated activities, the Sustainable Development and Corporate Impact Committee not only supports but also actively promote the businesses making significant strides in incorporating sustainability into their core strategies.

Taking the above-mentioned into consideration, American Chamber of Commerce in Azerbaijan published this Sustainability Handbook to raise awareness of AmCham member companies, their partners and vendors, as well as wider business circles of Azerbaijan – on sustainability practices - for the further growth of the businesses and society in general.

bp is Azerbaijan's long-term reliable partner and the operator of the country's major energy projects. As such, the company is committed to contributing to the country's efforts to build its sustainable bright future. bp is proud to be supporting the most important development areas and investing in education, capacity-building in local communities, local enterprise and business development, protection of the environment, promotion of cultural heritage and history and development of national sport.

This handbook is bp's contribution to advancing sustainable business practices in Azerbaijan, promoting innovative strategies, and fostering a commitment to environmental and social responsibility.

About Sustainera Solutions

Sustainera Solutions developed the Sustainability Handbook for the American Chamber of Commerce in Azerbaijan (AmCham Azerbaijan) by sharing our expertise in various sustainability disciplines. Sustainera Solutions is a dynamic company operating in Azerbaijan dedicated to advancing sustainable development across various sectors. Sustainera Solutions is known for delivering innovative and impactful projects that focus on enhancing sustainability practices, climate impact mitigation, safety, strategic transformation, and environmental intelligence.

Our input in this guide draws from our experience across multiple industries, providing insights designed to improve the understanding and implementation of effective sustainability strategies. By providing tools and case studies, we help illuminate the path to better environmental, social and economic outcomes for businesses in Azerbaijan. Through this handbook, Sustainera Solutions supports AmCham's mission to promote responsible business practices and contribute to a sustainable future for the region. This initiative reflects our shared commitment to helping businesses achieve their sustainability goals while maintaining a focus on the collective impact of the AmCham community.

To make the most of this reference guide, readers are encouraged to approach it with a willingness to learn and adapt. It is designed to be user-friendly and accessible, with clear explanations, practical examples, and actionable recommendations.

Throughout the handbook, the readers will also find case studies, best practices, and insights from sustainability focused businesses. Additionally, the guide provides a list of resources and references for those seeking to delve into the subject matter or stay up-to-date with the latest developments in the field of sustainability.

List of Abbreviations

CDP Carbon Disclosure Project
CERES Coalition for Environmentally Responsible Economies
COP Conference of the parties
CSR Corporate Social Responsibility
DJSI Dow Jones Sustainability Index
ESRS European Sustainability Reporting Standards
EU European Union
FMCG Fast-Moving Consumer Goods
GDP Gross domestic product
GHG Greenhouse gases
GMO Genetically modified organism
GRI Global Reporting Initiative
IFRS International Financial Reporting Standards
IPCC Intergovernmental Panel on Climate Change
ISO International Organization for Standardization
ISSB International Sustainability Standards Board
IUCN International Union for Conservation of Nature
KPI Key Performance Indicator
LULUCF Land Use, Land-use Change and Forestry
MAPS Mainstreaming, Acceleration, and Policy Support
MSCI Morgan Stanley Capital International
NDC Nationally Determined Contributions
NGO Non-governmental organization
NSO National Statistical Offices
OHS Occupational Health and Safety
R&D Research and Development
SASB Sustainability Accounting Standards Board
SBTi Science Based Targets initiative
SD&CI Sustainable Development and Corporate Impact
SDG Sustainable Development Goals
SME Small and medium-sized enterprises
TCFD Task Force on Climate-Related Financial Disclosures
UN United Nations
UNCED The United Nations Conference on Environment and Development
UNDP United Nations Development Programme
UNEP United Nations Environment Programme
UNFCCC United Nations Framework Convention on Climate Change
UNGC United Nations Global Compact
UNSDCF The United Nations Sustainable Development Cooperation Framework
WRI World Resources Institute
WWF World Wide Fund

Guide to the Handbook

How does this Handbook aim to enable change?

In today's world, sustainability is a critical concern for businesses, governments, and individuals. As we struggle with the challenges of climate change, resource scarcity and depletion, and environmental degradation, it has become increasingly evident that our current practices are unsustainable. The need for a comprehensive guide that can help businesses and entrepreneurs navigate the complex landscape of sustainability has never been more pressing.

This sustainability guide is a comprehensive resource that aims to provide a hands-on action plan* for businesses and entrepreneurs seeking to embrace or improve their sustainable practices. It is also designed to be a valuable reference for decision-makers, employees, consumers, and anyone interested in understanding the importance of sustainability and how to implement it effectively.

The goals of the Handbook are:

- **To raise awareness about the critical importance of sustainability and its far-reaching impacts on our ecosystems, society, and economy.**
- **To provide a clear picture of the principles and practices in sustainability, including topics such as employee safety and welfare, energy efficiency, waste management, and responsible sourcing.**
- **To highlight the business case for sustainability, demonstrating how it can drive innovation, improve brand reputation, and enhance long-term profitability.**
- **To equip readers with practical examples of integrating sustainability into their operations, products, and services.**
- **To inspire and empower individuals and organizations to take action and become agents of positive change in their communities and beyond.**

This Handbook is primarily intended for a diverse audience, including:

- Business leaders, entrepreneurs and decision-makers seeking to integrate sustainability into their organizations' strategies and operations.
- Employees at tactical level who want to start discussion on sustainable practices with the management and contribute to their company's sustainability efforts.
- Policymakers and government officials responsible for developing and implementing sustainability-related policies and regulations.
- Non-profit organizations and community groups working to promote sustainable practices and address environmental and social challenges.

* See Annex 1 on page 97

PART I

Chapter 1.

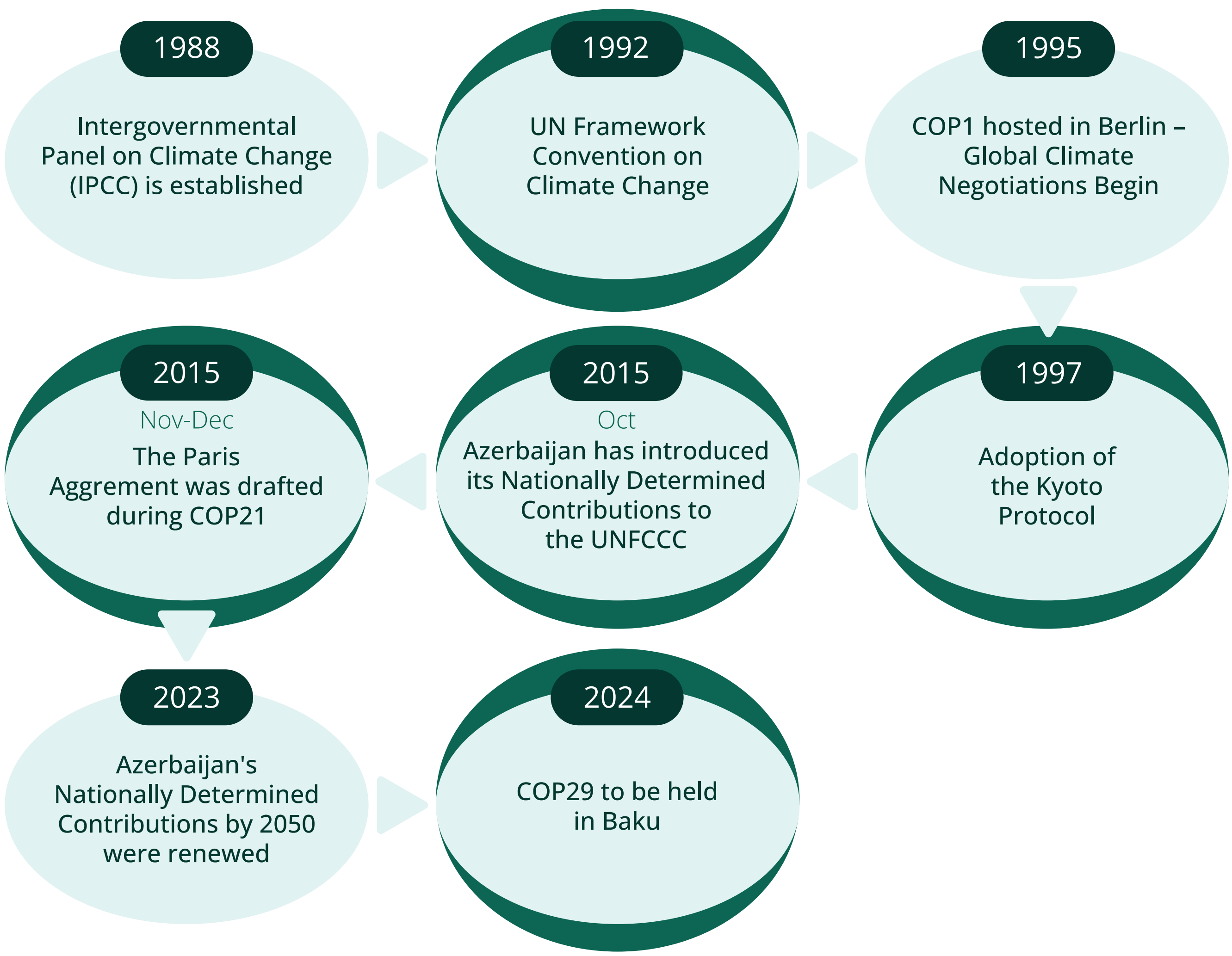
Global Context in Sustainability & Sustainable Development

1. Understanding the Sustainable Development on a Global Scale

Achieving sustainable development globally requires a coordinated multilateral effort supported by strong cooperation mechanisms, shared principles, and comprehensive governance frameworks. It is important to examine the key international frameworks, agreements, and initiatives that collectively define the global context driving economic progress, social inclusivity, and environmental stewardship.

The UN Sustainable Development Goals (SDG) and sustainability reporting increases traceability, accountability and transparency of the actions of companies and institutions. This oversight drives concrete action and a mindset of continuous improvement across governments, private sector entities, and civil society organizations alike.

The constellation of UN-led programs and global development compacts plays a vital enabling role by mobilizing financial resources, facilitating technology and know-how transfers, and building institutional capacities – thereby empowering developing nations to transition towards sustainable development pathways. Complementing these efforts, such institutions crucially raise awareness about sustainability priorities while proactively engaging a diverse array of stakeholders – governments, businesses, non-profits, academia, and citizens – in policy formulation and decision-making processes.



2. Concepts

2.1. The UN Sustainable Development Goals (SDGs)

The UN Sustainable Development Goals (SDGs) are a universal call for action to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity. These 17 interconnected goals were adopted by all United Nations Member States in 2015 as part of the 2030 Agenda for Sustainable Development. By providing a shared blueprint and roadmap, the SDGs play a vital role in aligning policies across borders and sectors. They mobilize multi-stakeholder partnerships, catalyze financial resources, strengthen institutional capacities, and facilitate knowledge sharing. Supported by a robust monitoring and reporting framework, the SDGs drive accountability and measure real progress on the path to sustainability.

The SDGs mark a crucial shift towards an integrated approach that recognizes the interlinkages between economic, social, and environmental dimensions of sustainable development.

The 17 UN Sustainable Development Goals:

No Poverty: This goal aims to end poverty in all its forms everywhere by 2030. This involves targeting those living in extreme poverty with measures like social protection systems, access to basic services, and assistance following environmental/economic shocks.

Zero Hunger: This goal seeks to end hunger and all forms of malnutrition by 2030 and promote sustainable agriculture. Key targets include ending stunting/wasting in children, ensuring access to safe, nutritious food year-round, doubling agricultural productivity, and ensuring sustainable food production systems.

Good Health and Well-being: Ensuring healthy lives and promoting well-being at all ages. Targets span reducing maternal mortality, ending preventable child deaths, fighting communicable diseases like AIDS, improving mental health access, achieving universal healthcare, and addressing substance abuse.

Quality Education: Providing inclusive, equitable quality education and lifelong learning opportunities. Priorities include free primary/secondary schooling, affordable vocational training, eliminating gender/wealth disparities in education access, and increasing the supply of qualified teachers worldwide.

Gender Equality: Achieving gender equality by ending all forms of discrimination, violence, and harmful practices against women and girls. Key areas are reproductive rights, equal leadership/economic opportunity, unpaid care/domestic work, and inheritance/property ownership rights.

Clean Water and Sanitation: Ensuring availability and sustainable management of water and sanitation for all. This involves universal, equitable access to safe drinking water/adequate sanitation and hygiene, improving water quality, increasing water-use efficiency, and protecting water-related ecosystems.

Affordable and Clean Energy: Ensuring access to affordable, reliable, sustainable, and modern energy for all. Targets focus on universal energy access, increasing renewable energy's share in the global mix, doubling the rate of energy efficiency improvements, and expanding clean energy research/infrastructure.

Decent Work and Economic Growth: Promoting sustained, inclusive economic growth, full productive employment, and decent work for all. Areas covered include entrepreneurship, job creation, resource efficiency in economic growth, eradicating forced labor/human trafficking, and labor rights.

Industry, Innovation, and Infrastructure: Building resilient infrastructure, promoting sustainable industrialization, and fostering innovation. This goal targets developing quality, sustainable infrastructure to support economic development and human well-being through increased resource-use efficiency and clean, environmentally sound technologies.

Reduced Inequalities: Reducing inequality within and among countries by eliminating discriminatory laws and policies, promoting appropriate legislation, and adopting fiscal/wage policies that support equality.

Sustainable Cities and Communities: Making cities and human settlements inclusive, safe, resilient, and sustainable. This involves providing affordable housing, upgrading slums, investing in public transit, protecting cultural/natural heritage, reducing environmental impacts, and implementing integrated policies towards resource efficiency.

Responsible Consumption and Production: Ensuring sustainable consumption and production patterns by promoting resource and energy efficiency, sustainable infrastructure, and providing access to basic services, green and decent jobs, and better quality of life for all.

Climate Action: Taking urgent action to combat climate change and its impacts by regulating emissions, promoting renewable energy, and strengthening resilience and adaptive capacity to climate hazards.

Life Below Water: Conserving and sustainably using the oceans, seas, and marine resources through reducing marine pollution, managing/protecting marine ecosystems, minimizing ocean acidification, regulating overfishing, and increasing scientific knowledge.

Life on Land: Protecting, restoring, and promoting the sustainable use of terrestrial ecosystems, forests, and halting biodiversity loss through conservation, sustainable forest management, and combating desertification.

Peace, Justice, and Strong Institutions: Promoting peaceful, inclusive societies, providing access to justice, and building accountable institutions at all levels through reducing violence, combating organized crime, ensuring rule of law, ensuring public access to information, and protecting fundamental freedoms.

Partnerships for the Goals: Revitalizing the global partnership for sustainable development by mobilizing resources, sharing knowledge, establishing multi-stakeholder partnerships, and promoting policies for developing countries on finance, technology, capacity-building, and trade.

The SDGs recognize that solving these challenges should go in parallel with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling environmental degradation and preserve water and land resources. SDGs provide a shared blueprint for peace and prosperity for people and the planet, now and into the future.

The UN SDGs are meant to be achieved by 2030 through the combined efforts of governments, civil society, the private sector, and citizens around the world. Progress toward these goals is tracked and reviewed using a set of 169 targets and 232 unique indicators. Various international institutions functioning across the world, including the World Bank, UN organisations, and other INGOs, have been designated as 'custodians' of SDG objectives. National governments, on the other hand, are the primary source of official data in their individual countries. These international agencies collaborate with National Statistical Offices (NSOs) and appropriate ministries to create methods for indicators to gather relevant data, monitor progress on the SDGs, and facilitate global reporting. Each country is ranked according to its compliance with the targets. Azerbaijan ranks 53rd among 166 countries in this ranking. Azerbaijan's SDG index score is 73.5, and its spillover score is 96.4.

2.2. The Six Capitals

The concept of 'six capitals' assists organizations in measuring their performance and value creation from a comprehensive and sustainable perspective.

1 **Natural Capital**, which encompasses the stock of renewable and non-renewable natural resources and ecological systems that provide essential goods and services. These include air, water, land, minerals, forests, biodiversity, and healthy functioning ecosystems. Natural capital is fundamental to all other forms of capital and human well-being, making its preservation and sustainable management critical for long-term value creation.

2 **Human Capital** refers to the knowledge, skills, competencies, and abilities possessed by individuals and the workforce. It encompasses human resource capabilities, experience, and motivation that drive innovation, productivity, and the delivery of products and services. Investing in human capital through education, training, and favorable working conditions is vital for nurturing talent and fostering a competitive advantage.

3 **Social Capital** refers to the institutions, relationships, norms, and trust that can enable cooperation, inclusive decision-making, and collective action within communities and societies. It encompasses both formal and informal networks, shared values, and the social fabric that can enable coordination and collaboration for mutual benefit. Strong social capital can foster social cohesion, stability, and resilience, which can be essential for sustainable development.

4

Manufactured Capital consists of the physical infrastructure, tools, machines, buildings, and other forms of productive human-made capital utilized in economic activities. This includes constructed assets such as transportation networks, communication systems, housing, and factories. Manufactured capital is essential for producing goods and services and enabling productive processes, but its creation and operation often rely on and impact other forms of capital.

5

Financial Capital refers to the pools of funds, investments, loans, and stock market capital that are available to organizations and individuals for productive use. It includes monetary resources obtained through financing, operations, or investments that can be allocated to support the acquisition and utilization of other forms of capital. Effective management of financial capital is crucial for enabling value creation and sustainable growth.

6

Intellectual Capital encompasses the intangible assets associated with intellectual property, organizational knowledge, systems, processes, and reputational value. This includes patents, copyrights, software, organizational procedures, and the collective expertise and wisdom embedded within an organization. Intellectual capital is a key driver of innovation, competitive advantage, and long-term resilience in a knowledge-based economy.

The Six Capitals Model provides a comprehensive approach to understanding and managing the resources and relationships that are essential for the long-term sustainability and value creation of an organization or society. It encourages organizations to consider their impacts and dependencies across all six capitals, rather than focusing solely on financial performance. Integrating the Six Capitals into decision-making can be beneficial for organizations as it can provide a more comprehensive understanding of their costs and benefits, help identify potential risks and opportunities, and enable the development of strategies to enhance overall sustainability and resilience.

3. Major UN Initiatives and Treaties

3.1. The United Nations Global Compact

The United Nations Global Compact, launched in 2000, is a voluntary initiative designed to encourage businesses and firms worldwide to adopt sustainable and socially responsible policies and practices. The UN Global Compact is the world's largest corporate sustainability initiative, and it provides a principles-based framework for businesses to align their operations and strategies around 10 universally accepted principles which are derived from the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. (see Figure 1 on page 17).

The Ten Principles provide a comprehensive value system for businesses, rooted in authoritatively proclaimed global agreements on human rights, labor, environment and anti-corruption. By joining the UN Global Compact, companies and organizations commit to incorporating these Ten Principles into their business strategies and operations. The Compact acts as a voluntary regulatory mechanism for ensuring responsible business practices.

The Communication on Progress (CoP) is how UN Global Compact participants show their adherence to the Ten Principles and Sustainable Development Goals. It includes an annual CEO statement and a detailed digital questionnaire on governance, human rights, labor, the environment, and anti-corruption. Acting as an early assessment for some businesses and a thorough progress tracker for more advanced ones, this standardized report uses public corporate sustainability data to help measure progress, build trust, identify improvement areas, and benchmark against peers.

The UN Global Compact's Ten Principles are derived from four key international agreements:

Principle 10

Businesses should work against corruption in all its forms, including extortion and bribery

Principle 9

Businesses should encourage development and diffusion of environmentally friendly technologies

Principle 8

Businesses should undertake initiatives to promote greater environmental responsibility

Principle 7

Businesses should support a precautionary approach to environmental challenges

Principle 6

Businesses should uphold elimination of discrimination in employment and occupation

Principle 1

Businesses should support and respect the protection of internationally proclaimed human rights

Principle 2

Businesses should make sure they are not complicit in human rights abuses

Principle 3

Businesses should uphold freedom of association and effective recognition of the right to collective bargaining

Principle 4

Businesses should uphold elimination of all forms of forced and compulsory labor

Principle 5

Businesses should uphold effective abolition of child labor

Figure 1. The Ten Principles of the UN Global Compact

3.2. The United Nations Framework Convention on Climate Change (the UNFCCC) and The Conference of the Parties (COP)

The United Nations Framework Convention on Climate Change (UNFCCC) is a landmark international treaty that serves as the foundational framework for global efforts to address the critical challenge of climate change. Adopted in 1992 at the United Nations Conference on Environment and Development (UNCED), also known as the Earth Summit, held in Rio de Janeiro, Brazil, the UNFCCC represents a significant milestone in multilateral cooperation and a recognition of the urgent need for concerted action to mitigate and adapt to the impacts of human-induced climate change.

UNFCCC

The main goal of the UNFCCC is to maintain the concentration of greenhouse gases in the atmosphere at a level that would prevent harmful human interference with the climate system. This objective is supported by guiding principles that emphasize equity, common but differentiated responsibilities, and respective capabilities. Developed nations should take the lead in combating climate change due to their historical contributions and greater financial and technological resources.

Under the United Nations Framework Convention on Climate Change (UNFCCC), all Parties should undertake a series of commitments that cover a wide range of actions aimed at addressing climate change. Mitigating greenhouse gas emissions through the implementation of national policies and measures, facilitating adequate adaptation to the adverse effects of climate change, promoting the sustainable management and conservation of sinks and reservoirs of greenhouse gases, cooperating in scientific, technological, and educational endeavors related to climate change, and raising public awareness on the issue are part of this long list.

COP serves as the decision-making body of the United Nations Framework Convention on Climate Change (UNFCCC), an international treaty aimed at stabilizing greenhouse gas concentrations in the atmosphere. During these conferences, countries negotiate and adopt new commitments, policies, and measures to mitigate and adapt to the impacts of climate change.

The outcomes of COP meetings have far-reaching implications for governments, businesses, and individuals alike. They shape policies, regulations, and market dynamics related to emissions reduction, renewable energy, climate finance, and adaptation strategies. Organizations that stay informed about COP decisions and outcomes can better anticipate and respond to emerging trends and regulatory changes, positioning themselves as leaders in the transition towards a low-carbon economy.

The UNFCCC has played a pivotal role in raising global awareness, promoting cooperation, and inspiring action on climate change. The UNFCCC has played a crucial role in shaping the global response to one of the most pressing challenges of our time by providing a comprehensive framework for intergovernmental negotiations, facilitating the exchange of scientific information, and promoting capacity-building and technology transfer.

3.3. The Paris Agreement

The Paris Agreement is an international treaty on climate change, adopted in 2015 at the 21st Conference of the Parties (COP21) to the United Nations Framework Convention on Climate Change (UNFCCC). It represents a historic turning point in the global climate effort.

Main Goals of the Paris Agreement:

- Limit global temperature increase to well below 2°C above pre-industrial levels and pursue efforts to limit it to 1.5°C.
- Increase the ability to adapt to adverse impacts of climate change and foster climate resilience.
- Make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.

The goal which limits the global temperature increase below 2°C aims to substantially reduce the risks and impacts of climate change by setting a long-term temperature target. It recognizes that even a 2°C rise would have severe consequences, and that efforts should be made to limit warming to 1.5°C. To achieve this, countries have committed to reducing greenhouse gas emissions through nationally determined contributions (NDCs), which are to be updated every five years with increased ambition. The agreement also emphasizes the need for global emissions to peak as soon as possible and achieve a balance between anthropogenic emissions and removals by sinks in the second half of the century.

Achieving the agreement's goals requires a significant redirection of financial flows towards low-emission and climate-resilient investments. This involves mobilizing climate finance from various sources, including public and private, bilateral, and multilateral, as well as alternative sources. The agreement calls for making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. It also emphasizes the need for developed countries to provide financial resources to assist developing countries in their mitigation and adaptation efforts.

Key Provisions:

- Requires all parties to make voluntary emissions reduction commitments called Nationally Determined Contributions (NDCs) and update them every 5 years.
- Aims to reach global peaking of greenhouse gas emissions as soon as possible.
- Provides a framework for transparent monitoring, reporting, and strengthening of commitments.
- Calls for climate finance from developed countries to assist developing nations.

As of 2023, 194 states, including Azerbaijan, and the European Union have signed the agreement. It entered into legal force in 2016 after ratification by over 55 countries.

4. Standards

4.1. Global Reporting Initiative (GRI)

Enhancing corporate transparency and accountability on sustainability fronts is a core mandate of the Global Reporting Initiative (GRI), an independent international organization. Established in 1997 as a collaborative endeavor between US non-profits CERES (Coalition for Environmentally Responsible Economies) and the United Nations Environment Programme, the GRI furnishes a globally recognized reporting language. This common framework empowers businesses and organizations to disclose their economic, environmental, and societal impacts comprehensively.

At the heart of GRI's approach are the Sustainability Reporting Standards, a modular yet interlinked set of guidelines applicable across sectors, organizational scales, and geographies. These standards articulate reporting parameters spanning a wide scope – from climate change and human rights to governance frameworks and community well-being. While voluntary in nature, the GRI Standards have emerged as the preeminent global benchmarks, with numerous companies and institutions worldwide relying on them to produce credible sustainability reports annually.

The inherent value proposition of the GRI Standards lies in their ability to cultivate a shared language and consistent methodologies for measuring, analyzing, and communicating an organization's sustainability performance indicators. This structured disclosure regime promotes transparency while holding entities accountable to their stakeholders and the broader society. Ultimately, the Global Reporting Initiative has catalyzed a paradigm shift by mainstreaming sustainability reporting and establishing it as a corporate norm across industries.

The GRI exemplifies a multilateral effort to develop an authoritative sustainability reporting framework that transcends boundaries. Its Standards empower organizations to comprehend and communicate their "3 P's"[1] impacts, fostering better-informed decision-making and driving the private sector's contribution towards the global sustainable development agenda.

4.2. International Financial Reporting Standard (IFRS) S1 and S2

IFRS S1 and S2 are accounting standards formed by the International Sustainability Standards Board (ISSB) for reporting sustainability and climate-related financial disclosures. IFRS S1 provides the basic requirements for sustainability disclosures. The primary goal of this Standard is to disclose all information concerning sustainability-related risks and opportunities that are likely to influence a company's prospects. IFRS S2 requires the disclosure of information on climate-related risks and opportunities that might reasonably be expected to influence the business's cash flows, access to credit, or cost of capital in the short, medium, or long term. This sets up a framework for businesses to convey the financial consequences of climate change in their financial statements. Beginning January 2025, reports documenting fiscal year 2024 will be required to adhere to the criteria outlined in IFRS S2. Subsequently, beginning in January 2026, both IFRS S2 and IFRS S1 will be required for full financial reporting for the same period.

June 2023

ISSB issued its first two IFRS® Sustainability Disclosure Standards, IFRS S1 and IFRS S2

June 2023 - January 2025

Preparations by Companies and relevant stakeholders, and Concessions Stage by ISSB

January 2025

Financial reports for the year 2024 must comply with IFRS S2 standards

January 2026

In addition to IFRS S2, adherence to IFRS S1 will also be mandatory for reporting on the 2025 fiscal year

[1] The Ps refer to People, Planet, and Profit, also often referred to as the triple bottom line.

4.3. Sustainability Accounting Standards Board (SASB) Standards

SASB distinguishes out for its industry-specific standards, which provide guidelines adapted to 77 distinct industries. These standards assist organizations in successfully communicating their sustainability performance to investors, guaranteeing that they tackle the most important environmental, social, and governance (ESG) challenges in their industry. Companies that conform with SASB standards increase transparency and allow investors to make better judgments regarding sustainability risks and possibilities.

4.4. Carbon Disclosure Project (CDP)

CDP (formerly the Carbon Disclosure Project) provides a comprehensive and trustworthy method for disclosing climate-related information. Companies and investors can share climate change and environmental data using the CDP platform. CDP provides framework for data gathering and reporting content. CDP, a de-facto standard for environmental reporting, collects the data through an annual survey and scoring the companies on a range from A to E, with the A-list companies being top performers in environmental leadership.

4.5. European Sustainability Reporting Standards (ESRS)

European Sustainability Reporting Standards (ESRS) are the latest comprehensive collection of rules and frameworks developed by the European Union to standardize and improve sustainability reporting processes across enterprises. These standards provide a formal framework for corporations to publish their environmental, social, and governance (ESG) performance, promoting transparency and comparability across industries and enabling stakeholders to make informed decisions.

5. Frameworks

5.1. The Task Force on Climate-related Financial Disclosures (TCFD)

The Task Force on Climate-related Financial Disclosures (TCFD) is a framework designed to assist firms in disclosing clear, comparable, and consistent information regarding the risks and opportunities posed by climate change. The Financial Stability Board developed the TCFD framework, which includes suggestions for reporting climate-related financial information in four critical areas:

A. **Governance,**

B. **Strategy,**

C. **Risk Management,**

D. **Measurements And Objectives.**

Companies may use the TCFD framework to better assess and explain their exposure to climate-related risks, as well as their risk mitigation initiatives, allowing investors, lenders, and other stakeholders to make more informed decisions.

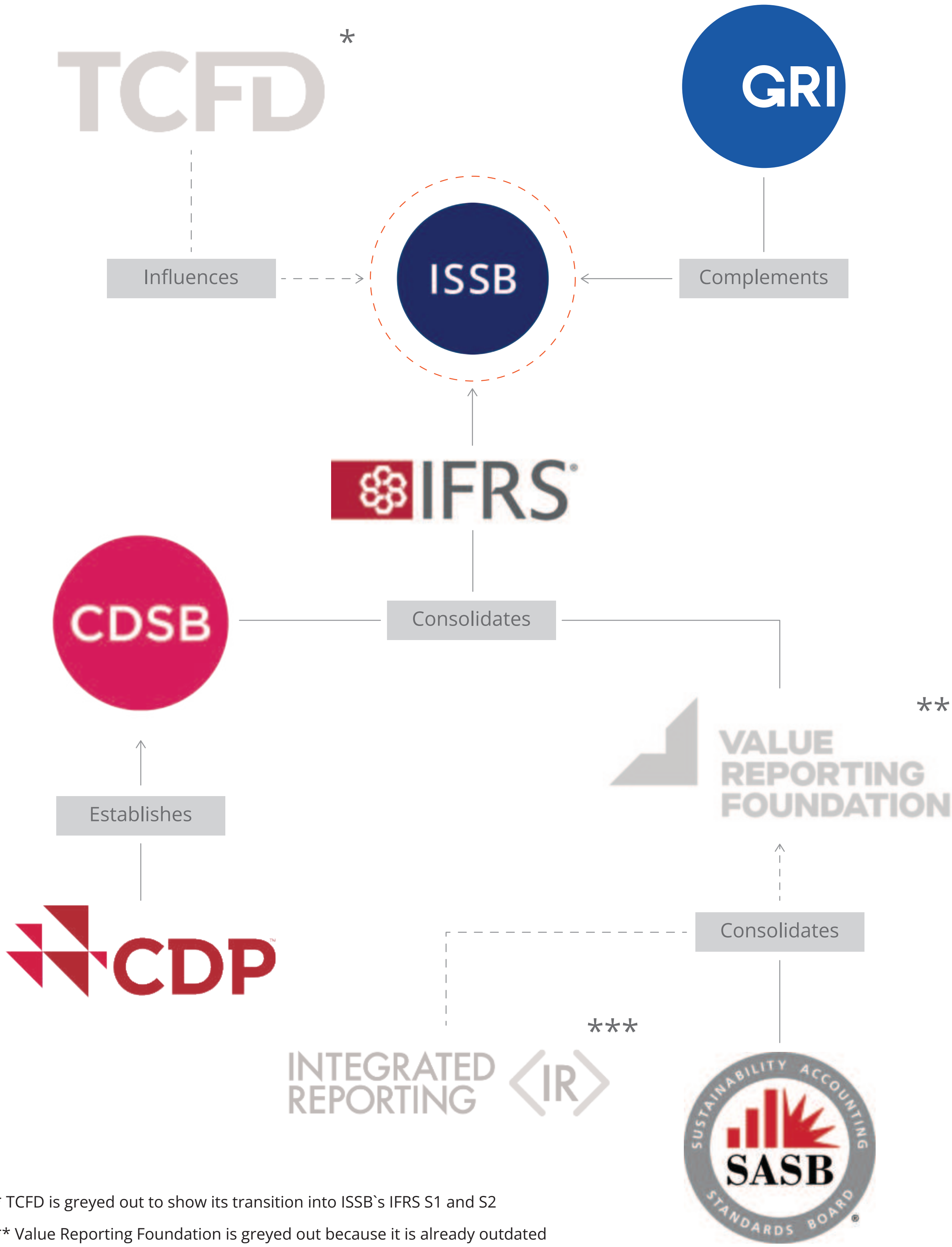
5.2. Science Based Targets initiative (SBTi)

The Carbon Disclosure Project (CDP), the United Nations Global Compact (UNGC), the World Resources Institute (WRI), and the World Wide Fund for Nature (WWF) collaborated to launch the Science Based Targets initiative (SBTi). SBTi aids businesses in developing ambitious, science-based objectives to decrease greenhouse gas emissions and line with the Paris Agreement's goal of limiting global warming to far below 2°C above pre-industrial levels. SBTi enables enterprises to transition to a low-carbon economy by offering a strong framework and techniques that promote resilience and sustainability in their business activities and value chains.

5.3. EU Taxonomy

The EU Taxonomy is a classifying system that identifies environmentally friendly economic activity and establishes common terms for investors, companies, and regulators. By establishing defined criteria for sustainable operations, the EU hopes to allocate funding toward environmentally beneficial initiatives that serve its climate goals. This affects businesses by pushing them to adopt sustainable practices in order to attract investment.

Notably, a few countries, like China, Canada, and Japan, have their own taxonomies, demonstrating a worldwide trend toward standardizing sustainable finance and promoting green economies.



* TCFD is greyed out to show its transition into ISSB`s IFRS S1 and S2

** Value Reporting Foundation is greyed out because it is already outdated

*** Integrated Reporting is greyed out because it is already outdated

Figure 2. Sustainability Standards Landscape Scheme

6. Ratings

6.1. Morgan Stanley Capital International (MSCI)

MSCI provides research, analytics, and indexes to help investors evaluate ESG performance and risk. Its ESG ratings rank firms according to important ESG parameters, allowing investors to incorporate sustainability concerns into their investing strategy. MSCI's indexes, including the MSCI ESG Leaders Index, serve as standards for sustainable investing portfolios.

6.2. Sustainalytics

Sustainalytics is an expert provider of ESG research and ratings to investors and corporate clients. Its analyses aid investors in identifying ESG risks and opportunities in their portfolios, as well as in improving firms' sustainability performance. Sustainalytics ratings are extensively utilized by asset managers, asset owners, and businesses to influence investment decisions and achieve beneficial social and environmental outcomes.

6.3. Dow Jones Sustainability Indexes (DJSI)

DJSI are a set of benchmarks that evaluate the sustainability performance of corporations throughout the world. They assess organizations based on economic, environmental, and social factors, presenting investors with information about corporate sustainability leadership. Inclusion in the DJSI demonstrates a company's commitment to sustainable business practices and can improve its reputation with investors and stakeholders.

6.4. S&P Global ESG Scores

S&P Global ESG Scores evaluate firms' ESG performance using a variety of factors, including their effects on the environment, social responsibility, and governance standards. These scores assist investors in assessing the sustainability performance and risk exposure of the firms in their investment portfolio. Investors regularly utilize S&P Global ESG Scores to guide their ESG integration strategy and interact with firms on sustainability problems.

Figure 3. Sustainability landscape

7. Other Notable Organizations

In the pursuit of a more sustainable future, various international organizations have emerged as key players in promoting and coordinating global efforts. These organizations play a crucial role in setting agendas, establishing frameworks, and fostering collaboration among governments, businesses, and civil society. Understanding the roles and significance of these organizations is essential for anyone seeking to engage in sustainability initiatives on a global scale.

United Nations Environment Programme (UNEP): UNEP is the leading global environmental authority that sets the global environmental agenda, promotes the coherent implementation of the environmental dimension of sustainable development within the United Nations system, and serves as an authoritative advocate for the global environment. Some of its key focus areas include climate change, resource efficiency, biodiversity, and environmental governance.

The International Sustainability Standards Board (ISSB): ISSB was founded by the IFRS Foundation to meet the rising need for uniform and comparable sustainability data in financial markets. The ISSB aims to create a comprehensive set of global sustainability standards that address a wide variety of environmental, social, and governance (ESG) challenges, such as climate change, biodiversity, social equality, and corporate governance. These standards are intended to supplement existing financial reporting requirements, giving investors, regulators, and other stakeholders a more complete picture of a company's performance and risks.

World Resources Institute (WRI): WRI is a global research organization that spans more than 60 countries, with international offices in Brazil, China, India, Indonesia, Mexico, and the United States. Its work focuses on seven critical issues at the intersection of environment and development: climate, energy, food, forests, water, sustainable cities, and the ocean.

World Wide Fund for Nature (WWF): WWF is an international non-governmental organization working in nearly 100 countries to conserve nature and reduce threats to the environment. Its main areas of work include biodiversity conservation, sustainable production and consumption, climate and energy, fresh water, and oceans and coasts.

International Union for Conservation of Nature (IUCN): IUCN is a membership Union composed of both government and civil society organizations. It harnesses the experience, resources, and reach of its members and partners to promote nature-based solutions to global environmental challenges. Its key areas of work include biodiversity conservation, climate change, sustainable energy, and green economy.

By understanding and engaging with these organizations, businesses, governments, and individuals can contribute to collective efforts, access valuable resources and expertise, and stay informed about the latest developments and best practices in sustainability.

Chapter 2.

Sustainable Azerbaijan: Tracing Progress & Forging Pathways

1. Paris Agreement and Azerbaijan: A Contextual Overview

The Paris Agreement, a major agreement ratified by Azerbaijan, came into force on November 4, 2016. It requires countries to reduce greenhouse gas (GHG) emissions and to keep global temperature rise below 2°C above pre-industrial levels, with efforts to limit it to 1.5°C. The Agreement, which has been signed by 197 nations and ratified by 187, demands efforts to decrease carbon dioxide and other GHG emissions starting in 2020. As a ratified party to the Paris Agreement, Azerbaijan joined the world community in tackling the urgent issue of climate change. By following to emission reduction targets and pursuing a low-carbon economy, Azerbaijan helps to achieve the Agreement's goals of limiting global temperature increase and encouraging sustainable development.

Photo 1. Source: United States Department of State

2. Azerbaijan's Role in Global Climate Action

Parties to the Paris Agreement, including Azerbaijan, submit nationally determined contributions (NDC) stating their objectives to reduce emissions and transition to a low-carbon economy. Azerbaijan has pledged to decreasing CO2 emissions by 35% by 2030 compared to the 1990 baseline year. Despite these efforts, the objectives established are insufficient to keep global temperature rise below 1.5°C, prompting the UN to call on member states to adjust their NDCs. Azerbaijan's revised Nationally Determined Contribution (NDC)[2] , presented in October 2023, represents a significant step forward in the country's efforts to combat climate change. The European Union (EU) provided help for the revision of the NDC through the EU4Climate program, which was executed by UNDP. This program intends to help nations in the Eastern Partnership, particularly Azerbaijan, implement the Paris Agreement and improve climate policies and regulations.

Azerbaijan's updated NDC includes a commitment to a 40% reduction in emissions by 2050, relative to 1990 levels, subject to international cooperation. Mitigation methods proposed in the NDC cover a wide range of sectors, including energy, industrial processes, agriculture, land use, land use change, forestry, and waste management.

[2] Azerbaijan's Revised NDC

3. Azerbaijan's Carbon Footprint: Insights into GHG Emissions

Azerbaijan, with a population of approximately 10.3 million people as of 2022, contributes minimally to direct global greenhouse gas (GHG) emissions, accounting for only 0.15% of the total. In 2019, the country released 6.2 metric tons of CO2 equivalent (t CO2e) per capita without accounting for land use and forestry (LULUCF) activities, and 5.4 t CO2e per capita with LULUCF included (EU4Climate, 2023). Energy and agriculture account for the majority of GHG emissions in Azerbaijan. Notably, between 1990 and 1995, the country's GHG emissions decreased by 37%, to around 52 million metric tons of CO2e due to the stagnation in economy. However, by 2016, emissions had climbed by 19% to 61 million metric tons of CO2e, despite a 14% decline in GDP caused by a drop in oil prices. The absence of decoupling between GHG emissions and GDP growth is due to Azerbaijan's fossil energy dependent economy.

Moving forward, mitigating GHG emissions in the country needs a concerted effort to transition to cleaner and more sustainable energy sources, cut emissions from agriculture, and encourage economic diversification to reduce reliance on fossil fuels. The fast expansion of the energy sector, which accounts for more than half of the country's GHG emissions, resulted in a 25% rise in emissions from 2000 to 2017 (State Statistical Committee of Azerbaijan, 2018). Greenhouse gas inventory data and GDP trends from 1990-2016 show significant rise in greenhouse gas emissions compared to GDP from 1990-2014, with continued growth in recent years. Azerbaijan's updated "Nationally Determined Contributions" document considers factors such as rapid GDP growth since 2004, demographic growth, investments, energy sector prices, technological advancements, energy consumption, and behavior to impact GHG emissions.

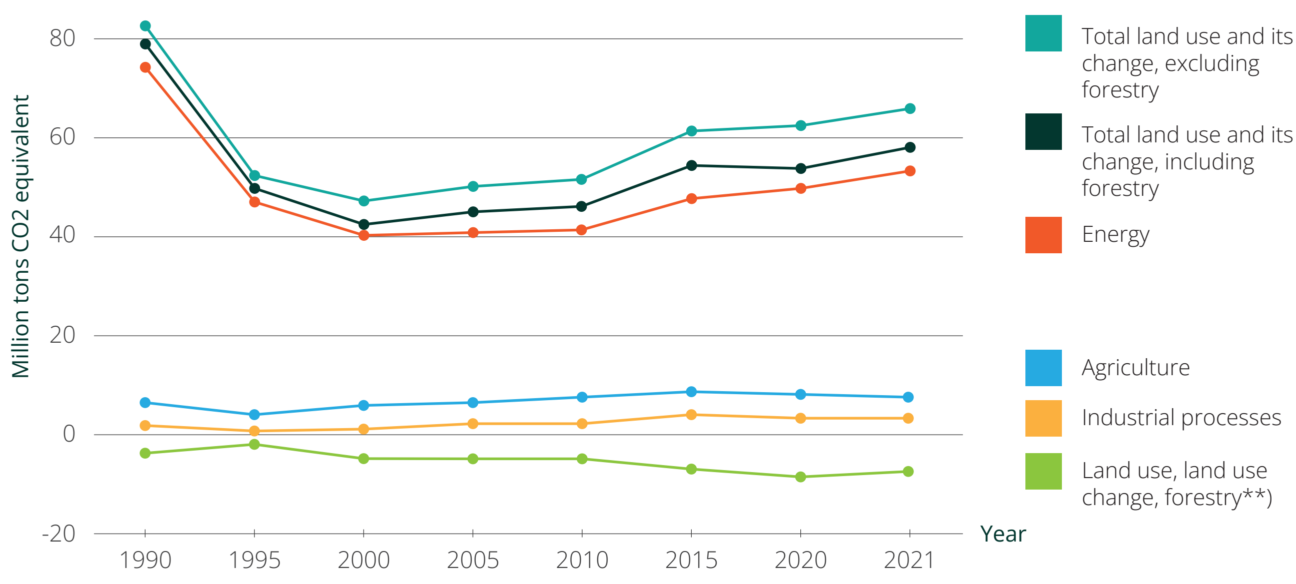


Figure 4. Greenhouse gas emissions by sectors) (CO2 equivalents million ton)*

*) According to data of the Ministry of Ecology and Natural Resources;

**) Minus is used for indication of absorbtion of gas creating heat effect;

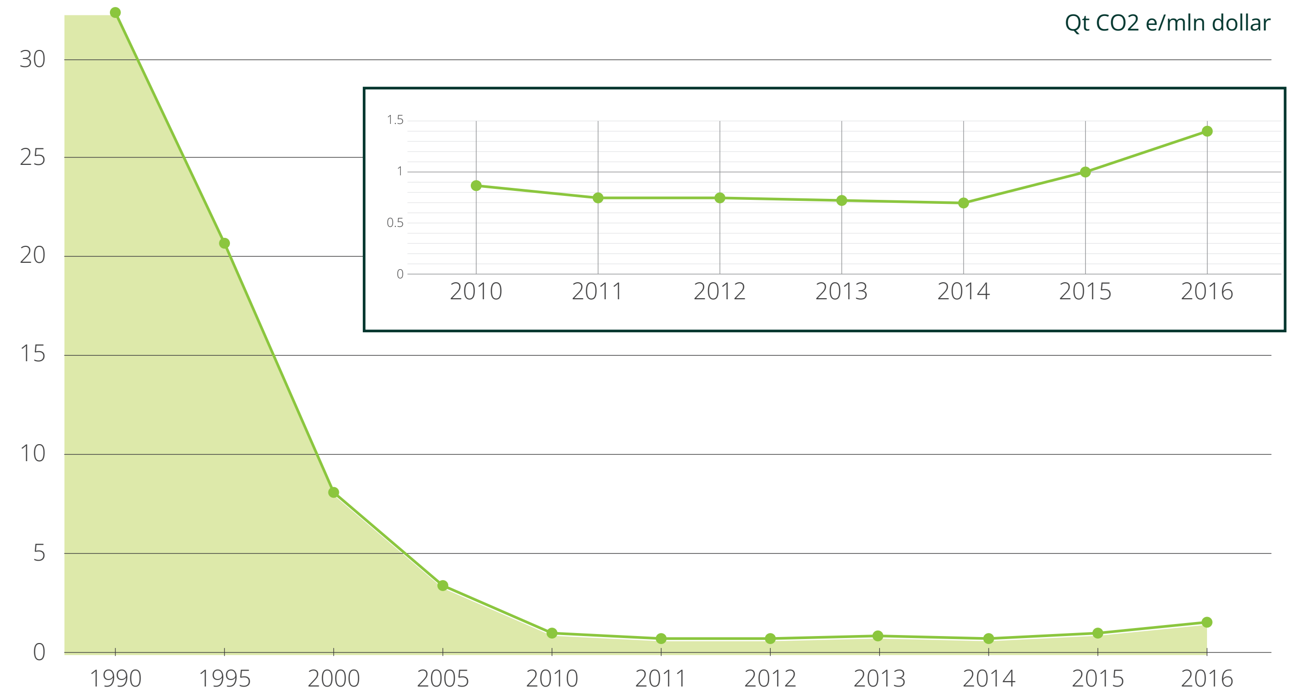


Figure 5. Greenhouse gas emissions in relation to GDP in Azerbaijan

The Republic of Azerbaijan is taking substantial measures to reduce greenhouse gas (GHG) emissions and meet its promised decarbonization targets. The major projects and projected achievements in this direction include:

- Collaboration on 500MW of renewable energy projects planned for Nakhchivan Autonomous Republic
- Agreements for 1GW of solar and onshore wind projects signed.
- Karabakh region targeted for transformation into a green energy zone.
- Renewables to account for 30% of Azerbaijan's power output by 2030.
- Total renewable energy potential estimated at 37,000 MW.

4. Azerbaijan's Sustainable Development Journey: Evaluating SDG Progress

Currently, Azerbaijan ranks at 53 in the Global SDG Index, with a score of 73.53 (SDG Index, 2023). According to the sustainable development report (2023), Azerbaijan is one of the regional leaders scoring above the regional average of 71.8. Leaving behind all the counterparts except for Georgia (ranked 42nd) in the South Caucasus region and Russia (ranked 49th) in the Caspian Sea region, Azerbaijan strongly holds pioneering position to conduct missions aimed at identifying specific initiatives that can help facilitate the implementation of the SDGs.

Azerbaijan has achieved **SDG 1 (No Poverty)** and successfully maintains zero percentage of the populations that is living under the poverty threshold of both $3.65/day and $2.15/day.

Figure 6. Azerbaijan's progress towards achieving the Sustainable Development Goals

Quality Education (SDG 4) and **Responsible consumption and production (SDG 12)** have made moderate progress, as evidenced by legislative changes and improvements in the education and economic sectors. However, issues such as declined net primary enrollment rate (88.8%) and production-based nitrogen emissions remain, impeding future progress.

Gender equality (SDG 5) has remained stagnant, particularly in rural regions, demanding tailored initiatives to rectify past imbalances. All the indicators concerning gender equality are stagnating or increasing at less than 50% of required rate, with major challenges remaining in seats held by women in national parliament.

Stagnation of **SDG 2 Zero Hunger** might be attributable to unsustainable agricultural practices, despite doubled investment in the agricultural sector during 2015-2019, of which 65.4% came from the public sector.

According to **SDG 7 (Affordable and Clean Energy)**, 100% of the population have access to electricity, while 96.04% use basic drinking water services **(SDG 6 – Clean Water and Sanitation)**.

SDG 9 (Industry, Innovation and Infrastructure) is moderately improving, with 86% of population using internet (2021) compared to 79.8% stated in the 2019 report[3].

Azerbaijan has also improved its indicators in the category of **Peace, Justice and Strong Institutions (SDG 16)**. The homicide rate per 100,000 people is 1.9, compared to 2.0 in the 2020 report. Walking alone at night in the city or area where they reside is safe for 82.4% of the population, which is 7.7% greater than the previous year.

Another significant milestone of Azerbaijan is achievement of **SDG 10 (Reduced Inequalities)**. The indicator worth to mention here is Gini Coefficient of 26.6 which measures the dispersion of income among the members of the population. The coefficient can take any values between 0 to 1 (or 0% to 100%) with increasing economic inequality closer to 1.

There is also a moderately increasing trend in **SDG 11 (Sustainable Cities and Communities)** explained by big investments in civil infrastructure and public transportation. A slight decrease in unemployment rate (5.4% of labor force) is one of the factors affecting stagnation of **SDG 8 Decent Work and Economic Growth**.

In terms of **SDG 17 Partnership for the Goals**, Azerbaijan is on track of achieving the goal due to prioritization of enhancing multistakeholder relationships to exchange information, skills, technology, and finances.

SDG 13 (Climate Action) and **SDG 15 (Life on Land)** are both moderately improving due to refined CO2 emissions imbodied in imports and successful activities preventing permanent deforestation, as well as extinction of Red List species. Admittedly, **SDG 3 Good Health and Well-being** is moderately improving as well, explained by maintaining neonatal and under-5 mortality rate within pre-set boundaries, except for maternal mortality rate which is unfortunately stagnating. No data is available for **SDG 14 (Life Below Water)**, thus it has not been possible to measure the progress for this particular SDG.

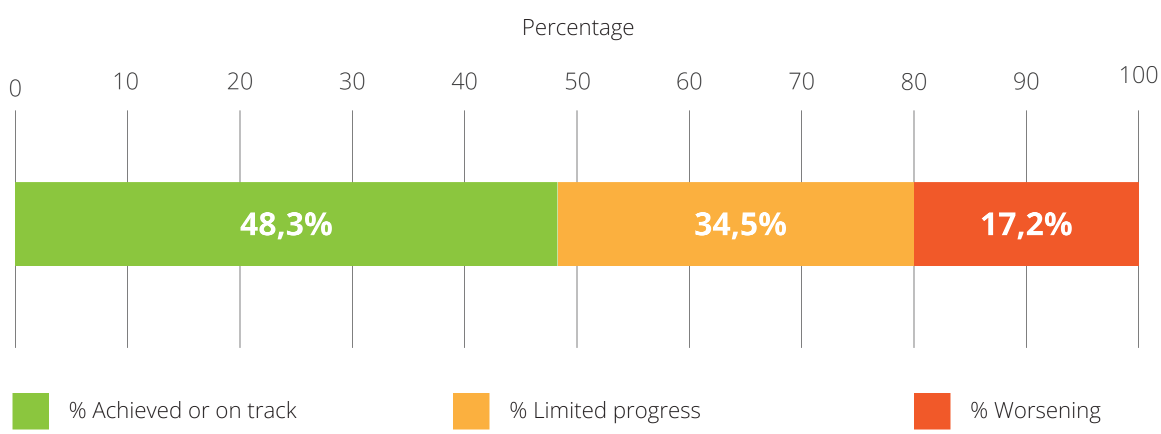


Figure 7. Status of SDG targets for Azerbaijan (% trend indicators)

[3] Sustainable Development Report 2019

5. From Vision to Action: Azerbaijan's National Policies and Collaborative Partnerships for Sustainable Development

Azerbaijan has exhibited a strong commitment to fulfilling the 2030 Agenda during the past eight years. In 2016, the President of the Republic of Azerbaijan signed a Decree to establish the National Coordination Council for Sustainable Development, which has since been a crucial partner for the United Nations in channeling its support to the Azerbaijani government.

Azerbaijan was one of the first countries to launch a MAPS mission (Mainstreaming, Acceleration, and Policy Support for the 2030 Agenda), which defined concrete policy and programming actions that could be implemented to expedite national goals, as presented at the 2018 Baku Forum on Sustainable Development. This regional event also witnessed the ratification of the Baku Principles, which set measures for the integration and acceleration of SDG implementation. With UN help, the National Information Portal on SDGs was developed, which includes an interactive dashboard, collects aggregated data, and records and monitors progress toward the SDGs in real time.

The UN and Azerbaijan's Ministry of Economy signed the Sustainable Development Cooperation Framework (UNSDCF) for 2021-2025. The Cooperation Framework, which is completely consistent with the SDGs, is founded on the values of gender equality, human rights, sustainable development, responsibility, and resilience, as well as socioeconomic development priorities, and will apply across Azerbaijan. The UNSDCF, the fifth UN-Azerbaijan cooperation framework, is based on an assessment of Azerbaijan's progress toward the 2030 Agenda for Sustainable Development.

Photo 2. Source: United Nations

Chapter 3.

CSR, ESG & Sustainability

CSR definition[4]

Corporate Social Responsibility (CSR) describes how firms manage and arrange their activities to positively influence society. While definitions vary, CSR typically refers to providing social, economic, and environmental benefits through company activities.

ESG Definition[5]

Environmental, Social, and Governance (ESG) refers to a corporate governance and investment framework. Companies that follow ESG principles assess and improve their accomplishments in these areas, in addition to financial concerns. Similarly, ESG investors consider a company's ESG characteristics in addition to its financial qualities when making investment decisions.

Sustainability Definition[6]

Sustainability is the practice of running a business in such a manner that it fulfills current economic, social, and environmental requirements while not jeopardizing future generations' capacity to satisfy their own.

1. Key actions in CSR and its implementation on social part of ESG

CSR (Corporate Social Responsibility) implementation is pivotal for fostering significant positive impacts within society, focusing primarily on the social aspects of the broader Environmental, Social, and Governance (ESG) factors. By concentrating on social initiatives such as community engagement, charitable activities, and ethical practices, CSR plays a crucial role in enhancing social well-being and building strong community relations. This focus is essential as it directly addresses the immediate needs of people and communities, creating a foundation of trust and mutual respect which is vital for sustainable business operations.

While CSR inherently emphasizes the social dimension, it also serves as a stepping stone towards comprehensive ESG integration by promoting ethical practices and community participation. These activities lay the groundwork for improved governance and environmental stewardship by fostering a culture of responsibility and accountability within organizations. Thus, CSR initiatives not only contribute to social equity but also encourage companies to adopt broader ESG practices. By embedding CSR into their core strategies, companies are better positioned to address environmental and governance issues, thereby enhancing their overall sustainability and creating long-term value for all stakeholders. In summary, CSR's focus on social issues is not only beneficial but essential for building a holistic approach to sustainability that ultimately supports the welfare of society and the environment.

[4] CSR Definition

[5] ESG Definition

[6] According to United Nations Brundtland Commission definition

Organizations that practice CSR can attempt to go beyond simple compliance with regulations and aim to have a genuine influence on social concerns through following key activities:

a) Impact of Products and Services:

Evaluate the social effect of the organization's products and services. Consider product safety, quality, and accessibility, as well as their impact on social well-being and sustainability.

b) Impact of Business Operations:

Assess the social effect of corporate operations, focusing on sustainability, green initiatives, inclusion, and diversity. Aim to reduce negative consequences while increasing beneficial contributions to the environment and society.

c) Corporate Citizenship Programs:

Set up corporate citizenship programs that favorably impact the local community. These projects may include projects in health, education, infrastructure development, and community participation, among others.

d) Impact on the Workforce:

Prioritize employee health and well-being. CSR include creating a positive work environment, paying fair salaries and benefits, encouraging diversity and inclusion, and giving opportunity for professional growth and promotion.

2. Key Differences between ESG and Sustainability

1. **Stakeholder Focus:** ESG focuses on corporate stakeholders and decision-making, whereas sustainability focuses on a company's relationship with the environment.
2. **Investment Framework vs. Internal Investments:** ESG is an investment framework used by external investors to analyze firm performance and risk, whereas sustainability focuses on internal capital investments targeted at environmental benefits.
3. **Standards and Frameworks:** ESG standards are established by legislators, investors, and reporting bodies, whereas sustainability standards are more scientific and standardized.
4. **Incorporating Social and Corporate Governance:** ESG considers sustainability as well as broader social and corporate governance issues.
5. **Relevance and Applicability:** While ESG is traditionally more relevant for large, publicly traded firms, it is becoming increasingly crucial for startups and smaller enterprises as financial institutions adopt ESG concepts.

CSR	ESG	Sustainability
Oriented towards wider public and internal stakeholders e.g., employees	Oriented towards investors, business partners and regulators	Oriented not only towards investors, business partners and regulators but wider stakeholder groups as well (NGOs, local communities etc.)
Not directly connected to business valuation	Directly connected to business valuation	Often connected to business valuation
Implemented through corporate culture, values and brand management	Implemented through quantifiable targets and audits	Implemented using a mix of CSR and ESG
Purpose: Social image and actions; An item in a larger sustainability agenda	**Purpose:** Risk assessment and management; Business partners and regulators engagement and compliance	**Purpose:** Risk assessment and management; Product and service lifecycle; Business partners and regulators engagement and compliance

Sustainability Maturity Scale

Figure 9. Differences between CSR, ESG and Sustainability

3. Greenwashing as vulnerable point in sustainability

On their sustainability pathway, business leaders should be aware of malevolent and deceptive greenwashing practices. Companies may engage in greenwashing for several reasons – to increase profits by misleading environmentally-conscious consumers, to appear more socially responsible without making meaningful changes, or sometimes due to a lack of standardization around environmental marketing claims. Whatever the intent, greenwashing undermines consumer confidence and impedes real progress on sustainability.

Greenwashing can have far-reaching and detrimental consequences. It misleads consumers, undermines public trust in legitimate environmental claims, and hinders progress towards genuine sustainability efforts. Furthermore, it creates an uneven playing field for companies genuinely committed to sustainable practices, as they may be at a competitive disadvantage compared to those engaging in deceptive marketing tactics.

Greenwashing has many manifestations such as:

- Making vague or misleading claims and/or labels about a product's environmental benefits without providing specific, verifiable information e.g. an FMCG or food producer claims its product is “eco/eco-friendly/sustainable/green/no GMO” etc.
- Highlighting a single environmentally friendly aspect of a product or service while ignoring other significant environmental impacts e.g. tire and battery producers claiming better eco-performance while downsizing the disposal impacts in the product lifecycle.
- Promoting a company's commitment to sustainability while continuing to engage in environmentally harmful practices e.g. airlines increasing number of short distance destinations with higher climate impact under the claims of encouraging tourism.

To combat greenwashing, consumers, organizations, and regulatory bodies must remain vigilant and skeptical of unsubstantiated environmental claims. Genuine sustainability efforts are indicated by reputable third-party certifications, transparent reporting, and a commitment to continuous improvement.

By understanding and avoiding greenwashing practices, we can promote transparency and accountability in sustainability. This empowers consumers and businesses to make informed decisions and drive meaningful change towards a more sustainable future.

PART II

Chapter 1.

Environment

Glossary of the main terms in Chapter 1

Term	Definition
Biodiversity	Biodiversity refers to the variety of living species on Earth, including plants, animals, bacteria, and fungi which constitute a certain ecosystem.
Climate Change Adaptation	Action(s) that help reduce vulnerability to the current or expected impacts of climate change like weather extremes and hazards, sea-level rise, biodiversity loss, or food and water insecurity.
Climate Change Mitigation	Action(s) taken by governments, businesses or people to reduce or prevent greenhouse gases, or to enhance carbon sinks that remove them from the atmosphere.
Ecosystem	Dynamic complex of plant, animal and micro-organism communities and their non-living environment interacting as a functional unit.
Greenhouse Gas Emissions	The release of gases such as carbon dioxide, methane, nitrous oxide and fluorinated gases into the atmosphere, contributing to global warming and climate change.
Habitat	All the physical, chemical and biological attributes that affect or sustain the organisms within an ecosystem.
Runoff	The part of the precipitation, snow melt, or irrigation water that appears in uncontrolled (not regulated by a dam upstream) surface streams, rivers, drains or sewers.

1. Introduction

1.1. Environmental assets and business

Any business depends on nature and its resources. Land, ocean, freshwater, and atmosphere are the main components of the natural world which have different variations within their functions and structure. Natural capital (See Part I) consists of stocks of environmental assets (components) such as forests, lakes, agricultural areas etc.

Ecosystems generate benefits for people and the economy by means of ecosystem services. Ecosystem services are key to understanding the dependence of companies on natural capital and crucial for risk management by any business. The ecosystem services in Azerbaijan can be, for example, the provision of timber and fuel wood in a forest, freshwater withdrawn from a river, the recreational and tourism opportunities of the Caspian coast, forests, mountainous area or semi-desert, the mitigation of flood, the pollination of crops etc. And because of such dependence, any depreciation in natural capital will have a negative effect on a business if dependent on ecosystem services.

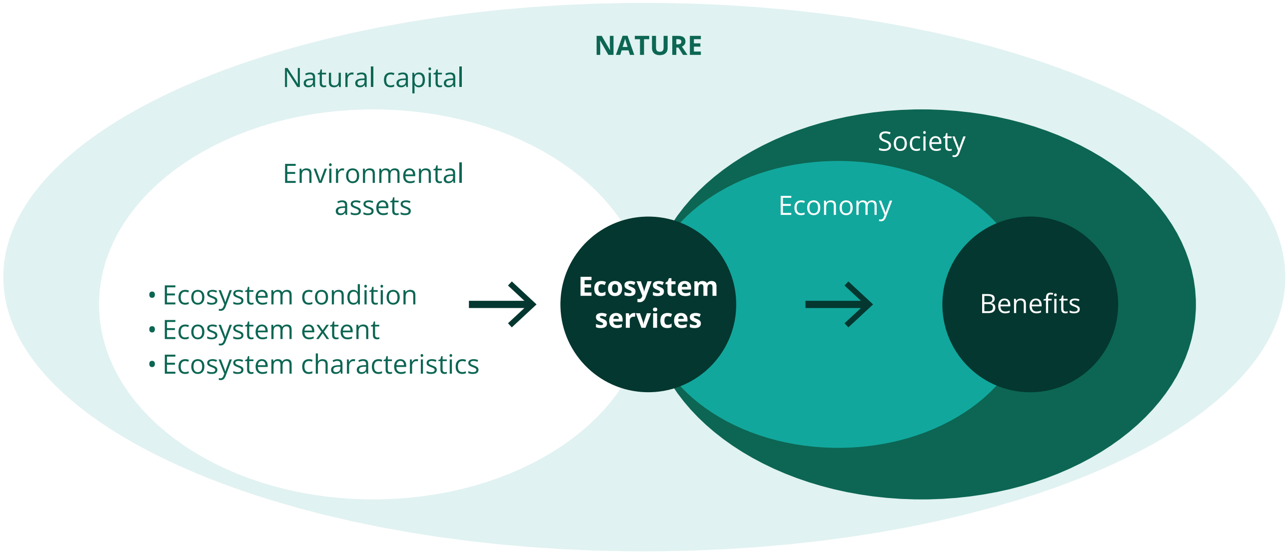


Figure 9. Ecosystem services and their interlinkage with society and economy (Source: UN)

It is also important to evaluate the dependencies and impacts on nature to assess the risks and opportunities to a business, sharing a circular interdependence.

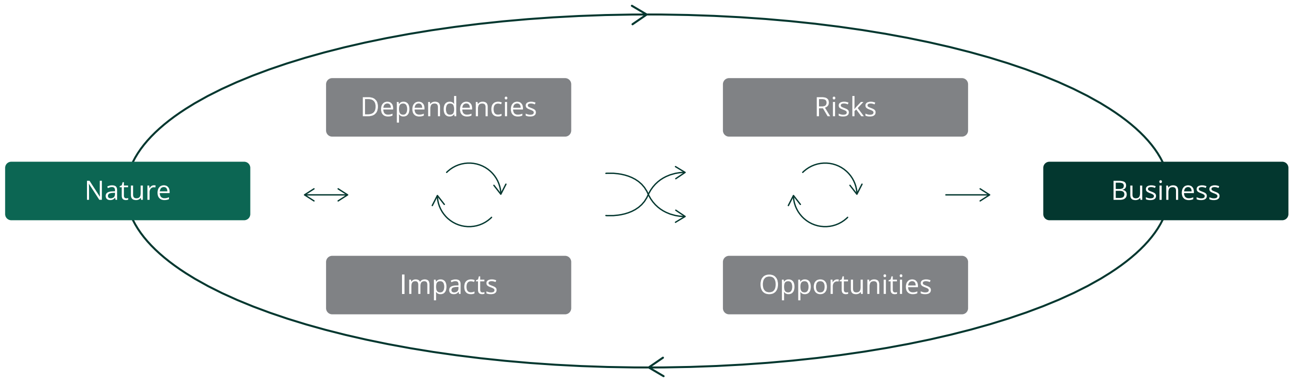


Figure 10. Dependencies, impacts, risks and opportunities

If a company is dependent on natural resources, its operations will depend on reliable and cost-effective access to ecosystem services. This dependence consequently affects investors' and stakeholders' perceptions of the business's value. Organizations also have impacts on ecosystems and their provision of ecosystem services. These impacts may be positive or negative while both dependencies and impacts interact and converge at some point.

2. Environmental risks and the business response

Nature-related risks can result from both dependencies and impacts on nature through:

- Changes to the environment itself, caused by business impact drivers or external factors
- Changes to the flow of ecosystem services associated with the changes to the state of environment
- Impacts to society resulting from business impacts on environment that may affect the business, for example, through lack of access to water resource due to damaged stakeholder relations, or damage to reputation following the release of pollutants that affect the health of local community

Nature-related opportunities are activities that create positive outcomes for businesses and nature through positive impacts or mitigation of negative impacts on environment.

2.1. Business response in practice

Responding to risks and opportunities, the actions that avoid or minimize negative environmental impacts should be prioritized over pursuit of restoration efforts or mitigation of existing damage through reconstructive or compensatory measures (see Figure 11 on page 44).

As a solution, AR3T framework includes 4 actions that should be followed sequentially:

- **Avoid:**
  Prevent negative impacts from happening in the first place or eliminate negative impacts entirely.
- **Reduce:**
  Minimize negative impacts that cannot be fully eliminated.

- **Restore:**

  Initiate or accelerate the recovery of an ecosystem with respect to its health, integrity and sustainability, with a focus on permanent changes in state.

- **Regenerate:**

  Take actions designed within existing land/ocean/freshwater uses to increase the biophysical function and/or environmental productivity of an ecosystem or its components, often with a focus on a few specific ecosystem services.

It further includes **Transformative** action, which covers the ways businesses can contribute to needed systemic change inside and outside their value chains.

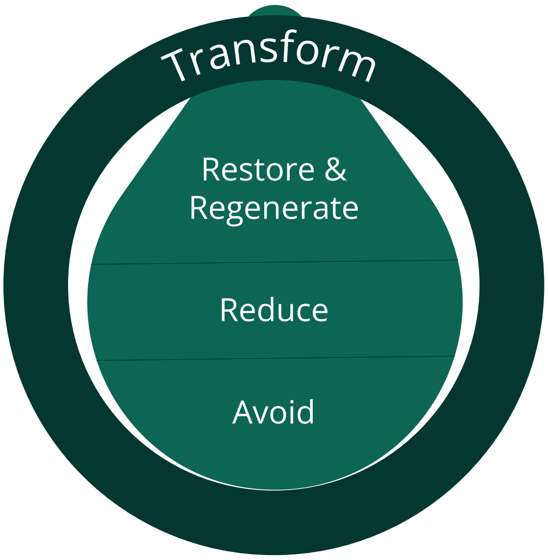


Figure 11. AR3T Action Framework Mitigation Hierarchy

3. Azerbaijan's context

Achieving a status of a COP host country, Azerbaijan still directly faces a range of environmental challenges emerging from both natural factors and human activities. Amongst these challenges the following are most prominently visible and the statistic provides the clear picture of anthropogenic impacts on nature:

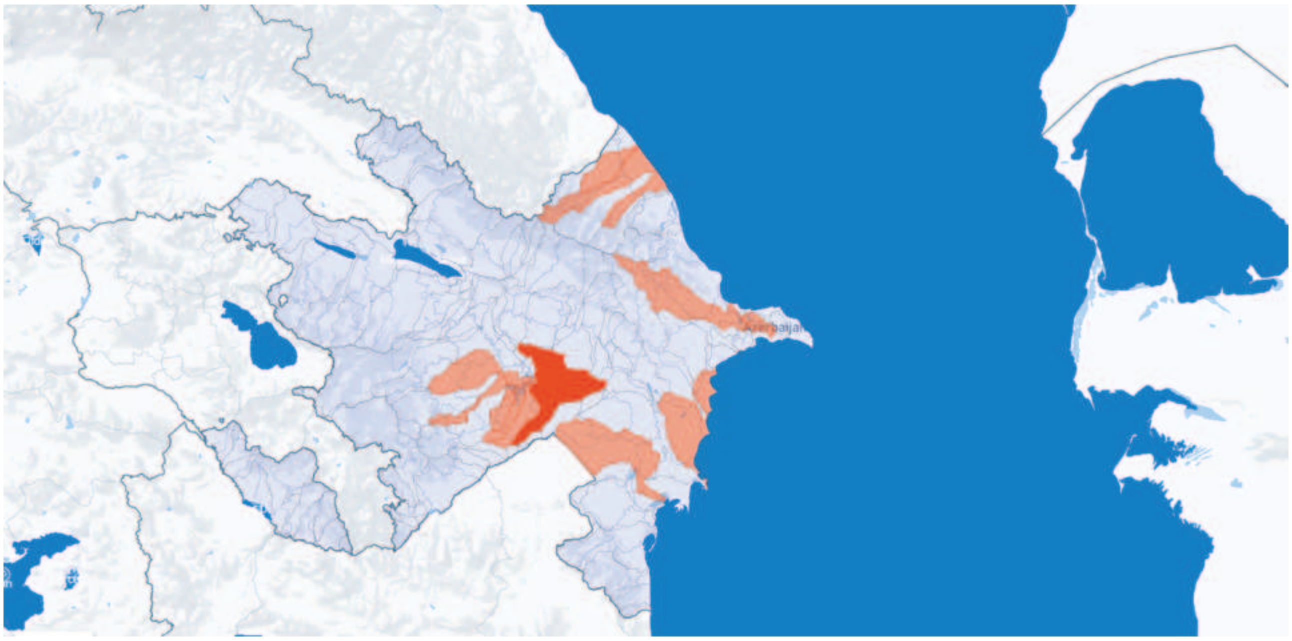


Figure 12. River flow dynamics map

- **Global warming**
  - As every country, Azerbaijan is also vulnerable to climate change impacts such as Caspian Sea level fluctuation, changing precipitation patterns, increased frequency of extreme weather events, and rising temperatures. These changes directly affect the agricultural sector, water resources, and ecosystems requiring adaptation strategies and mitigation measures for rural communities and businesses operating in the regions vulnerable to droughts and extreme weather events.
  - The effects of climate change are visible on the river flow dynamics map (see Figure 12 on page 44), with critical reduction in water availability (orange and red river basins): the minimum river flow decreased by 25% from 2000 to 2019.

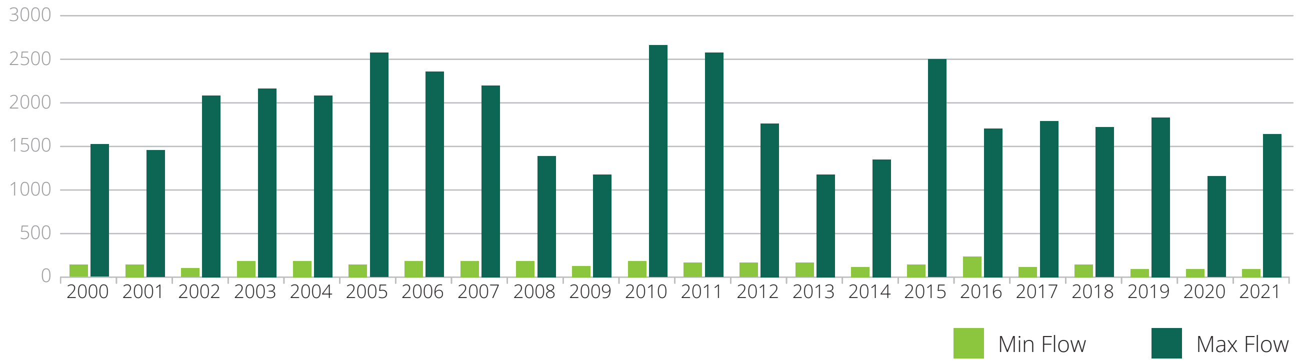


Figure 13. River flow dynamics chart

- **Water pollution**
  - Water pollution is another significant concern in Azerbaijan, particularly in the Caspian Sea and the country's major rivers. The water resources depletion, both surface and underground, is also posing risk for both businesses and communities.

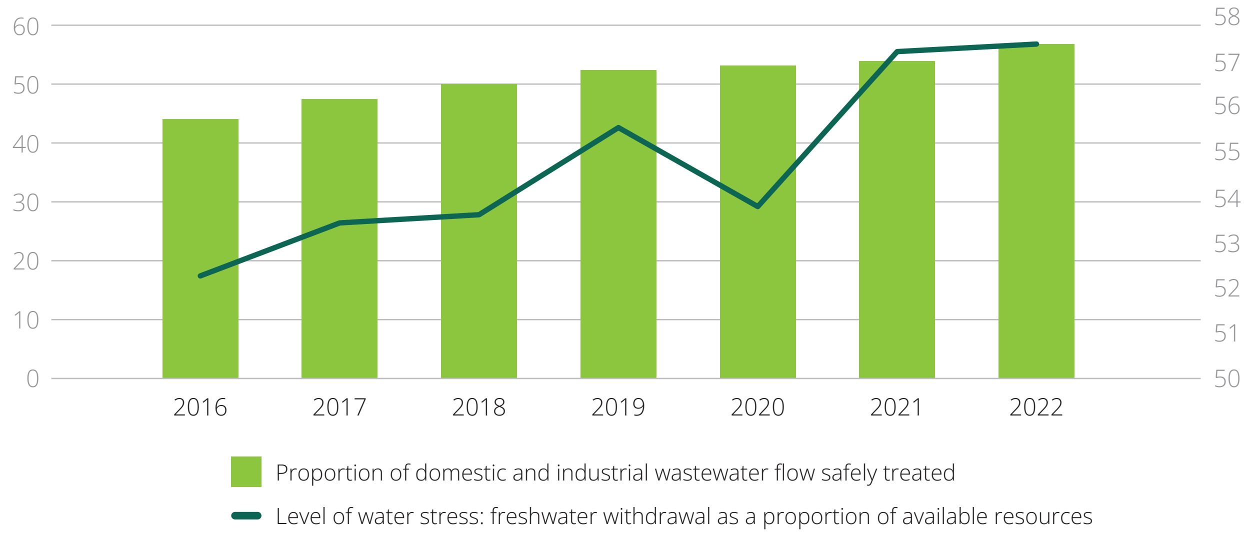


Figure 14. Performance in terms of SDG 6 - Clean Water and Sanitation

  - Although the improving performance in wastewater treatment since 2016, the level of water stress exerts further pressure on the available freshwater and groundwater reserves in the country, calling for efficient use of water by utilities and in industrial processes such as increase of the percentage of recycled and reused water.

- **Industrial pollution**
  - As an oil and gas extracting country, Azerbaijan needs to pay special attention to potential oil spills and leaks from hydrocarbons exploration, development and transportation infrastructure. Despite strict efforts to improve safety measures, minor accidents still occur, impacting both land and marine environment cumulatively and in long-term.
  - Urbanization and the return to industrialization led to increased air pollution in industrial and commercial centers like Baku, Ganja and Sumgayit. Emissions from vehicles, factories, and power plants contribute to high levels of particulate matter and pollutants, affecting air quality and public health.

- **Desertification and deforestation**
  - Forests and arable lands which are one of the most precious and vulnerable ecosystems in the country play a crucial role in maintaining biodiversity, regulating climate, preventing soil erosion and generating agricultural produce.

- **Waste Management**
  - In 2023, 4086.1 thousand tons of waste were generated in Azerbaijan, 66.6% of which were solid household waste and 33.4% of which were caused by the manufacturing activities of businesses.
  - 79.4% of those 2719.6 thousand tons of solid household waste were transported to landfills, 19.5% were used for energy from waste, and 1.1% was sold domestically. Using household waste in 2023 generated 8.6% more electricity compared to 2022.
  - Also, 22.9% of industrial/manufacturing waste was used as raw materials in organizations, 19.9 percent were sold domestically, 1.6% were exported, 8.5% were transported to landfills for disposal, and 47.1% was stored in facilities.
  - The chart below demonstrates an steady increase in waste production which is also commensurate with the increase of GDP, level of life, and consumption behavior.

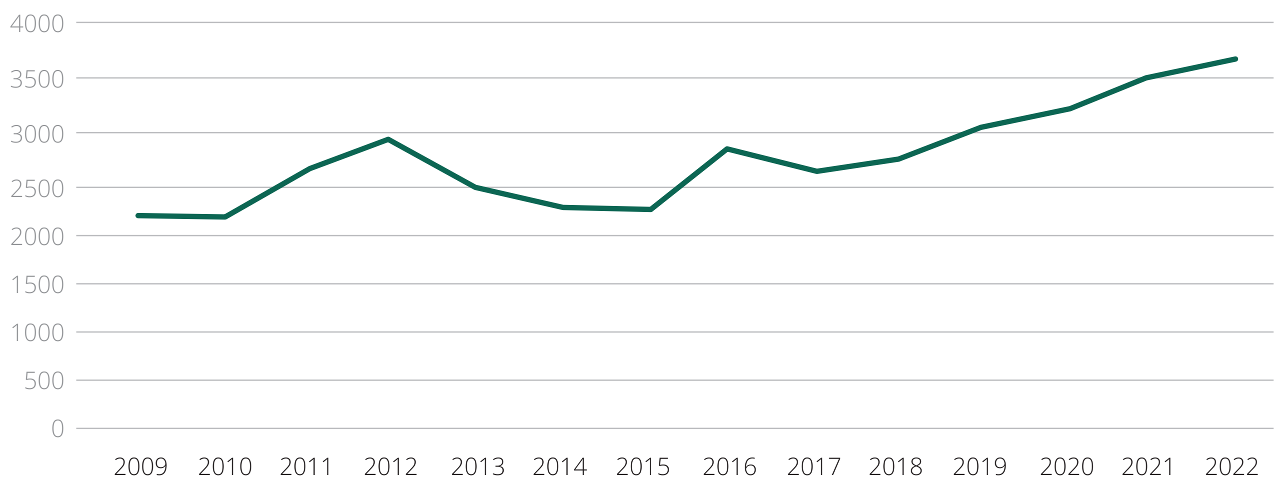


Figure 15. Industry and services waste generated, thsd. tons

So far, the business best practice[1] shows that the establishment of an environmental management and monitoring system, waste management plans with the integration of advanced recycling are the cornerstone of managing the ever-increasing waste generation in developing economies like Azerbaijan.

Addressing these environmental challenges requires a multi-faceted approach involving government policies, public awareness, technological innovation, and international cooperation.

4. Best practices with environmental focus

4.1. Climate mitigation and climate adaptation

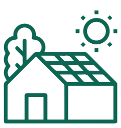
Amongst the environmental impacts and the response to them, climate change mitigation and adaptation are among the most pressing ones not just for Azerbaijan but all countries regardless of their economic or social development levels.

Reducing greenhouse gases emissions by mitigation measures can be achieved through:

Shifting away from fossil fuel energy as part of a transition to green economy

Fossil fuels are the biggest source of greenhouse gases in the energy mix globally and transitioning to renewable energy sources like solar, wind and geothermal power, and advancing technology and sustainable modes of transportation, is crucial. This shift is part of a wider concept of green economy which provides a response to the multiple crises that the world has been facing in the latest decades – the climate, food and economic crises. The alternative of green economy suggests growth while protecting the earth's ecosystems and, in turn, contributing to poverty alleviation. In this sense, the transition to a green economy entails moving away from the fossil fuel system that to a system that proactively addresses and prevents them.

Improving energy efficiency



Using less energy overall – in buildings, industries, public and private spaces, energy generation and transmission, and transportation – helps reduce emissions. This can be achieved by using thermal comfort standards, better insulation and energy efficient appliances, and by improving building design, energy transmission systems and vehicles.

Changing agricultural practices

Certain farming methods release high amounts of methane and nitrous oxide, which are potent greenhouse gases. Regenerative agricultural practices – including enhancing soil health, reducing livestock-related emissions, direct seeding techniques and using cover crops – support mitigation, improve resilience and decrease the cost burden on farmers.

The sustainable management and conservation of forests

Forests act as carbon sinks[2], absorbing carbon dioxide and reducing the overall concentration of greenhouse gases in the atmosphere. Measures to reduce deforestation and forest degradation are key for climate mitigation and generate multiple additional benefits such as biodiversity conservation and improved water cycles.

[1] Case study summaries and their main policy points

[2] Forests can help us limit climate change - here is how

Restoring and conserving critical ecosystems

In addition to forests, ecosystems such as wetlands, peatlands, and grasslands, as well as coastal biomes such as mangrove forests, also contribute significantly to carbon sequestration, while supporting biodiversity and enhancing climate resilience.

Creating a supportive environment

Investments, policies and regulations that encourage emission reductions, such as incentives, carbon pricing and limits on emissions from key sectors are crucial to driving climate change mitigation.

On the other hand, climate change adaptation helps reduce vulnerability to the current or expected impacts of climate change like weather extremes and hazards, sea-level rise, biodiversity loss, or food and water insecurity.

Many adaptation measures need to happen at the local level, so rural communities and cities have a big role to play. Such measures include planting crop varieties that are more resistant to drought and practicing regenerative agriculture, improving water storage and use, managing land to reduce wildfire risks, and building stronger defenses against extreme rainfalls, cold or heat waves etc.

At a national level, National Adaptation Plans (NAPs)[3] are comprehensive medium and long-term strategies that outline how a nation adapts to the changing climate and reduces its vulnerability to climate-related risks. Azerbaijan started its NAP implementation in 2021.

4.2. Circular economy concept

Another solution which is considered a way forward in terms of improving the environmental performance and creating overall value is the transition to circular economy or circularity.

In a circular economy, products are manufactured and consumed in a way that minimizes the use of the natural resources, cuts waste and reduces carbon emissions. Products are kept in use for as long as possible, through repairing, recycling and redesign – so they can be used again and again.

The circular economy is an alternative to traditional linear economies, where we take resources, make things, consume them and throw them away ("take-make-use-dispose"). Such way of life uses up finite raw materials and produces vast quantities of waste. Instead, in a circular economy - at the end of a product's life - the materials used to make it are kept in the economy and reused wherever possible.

There are several options which can help achieve this circularity shift:

Design

A circular economy requires designing products so they can be easily recycled or disassembled (for repair, reuse or resource recovery). This could mean designing consumer products with fewer raw materials or capital equipment designed for serviceability, modularity, and refurbishment.

[3] NAPs

Business models

Product-as-a-service (where a provider retains the ownership of a product/asset and the customer purchases access to it), sharing economy (where assets are shared across many owners) and others show alternative approaches to business that embed sustainability into way business is conducted.

New metrics and shared data

Better data on availability of materials used for hard to abate industries such as construction can help cut the emissions and protect biodiversity with reuse. Better data will also be critical as there's currently no standardized set of metrics to track progress on things such as reuse, something vital to tackling plastic pollution or protecting vital resources. To this end, World Economic Forum's Consumers Beyond Waste (CBW) initiative is useful to develop a set of standardized metrics as a way towards the re-use models.

Policy

Creating incentives for businesses and communities to build more circular habits is key to triggering long-term change. For instance, in September 2022, the residents of Zurich voted to include the circular economy in the region's constitution. Additionally, the European Union recently released the Packaging and Packaging Waste Regulation (PPWR), putting forth reuse targets across select industry sectors.

Although the definition might be new, there are and have been efforts by Azerbaijani businesses to apply and further explore circularity, especially in the core sectors of economy such as energy and manufacturing e.g. chemical hazardous waste from petrochemical plants are used for revalorizing the byproducts in heavy industry such as construction materials manufacturing.

5. Case Studies

Efforts to promote sustainable development, strengthen environmental regulations, and invest in renewable energy and clean technologies are essential to safeguard Azerbaijan's natural heritage for future generations. The following business case studies (for confidentiality reasons some are not public) showcase various environmental issues, management responses and policy solutions which led to positive outcomes such as carbon emissions reductions, improved land management, resource use and environmental stewardship.

5.1. Case study 1: Embedding Responsible Business Conduct (RBC) by food ingredients manufacturer in Asia with sourcing from vulnerable plantations in Malaysia and Indonesia

The Challenge:

The challenges associated with the conventional cultivation of palm oil are multidimensional and entrenched within complex supply chains. The Company is implementing supply chain due diligence into the Company's policies and management systems in order to address actual and potential adverse impacts on the environment. It focuses on two environmental risks commonly identified in the procurement of palm oil: deforestation and biodiversity loss.

The Solution:

- Embedding RBC into policies and management systems and communicating expectations to suppliers and other business relationships is the first step of due diligence. It enables companies to articulate their company-wide vision and strategy, assign responsibility, support relevant business units in implementation and ensure accountability. It can also help ensure suppliers are aware of and commit to integrating their business partner's policies and support implementation and monitoring of due diligence practices in supply chains.
- The Company appointed a Chief ESG (Environmental, Social and Governance) Officer who chairs an ESG committee which serves as an advisory body to the Board of Directors. The committee meets at least twice a year to review progress, and reports to the Board. The committee has elevated sustainable procurement of palm oil as one of the Company's top priorities. This is part of the Company's broader efforts to ensure sound management of environmental and social issues. It also provides training to employees and group companies to help them integrate ESG considerations as part of regular business processes and management activities. An annual awards programme aimed at recognising effective management of ESG issues was also introduced to incentivize better ESG performance.
- The Company became a member of the Roundtable on Sustainable Palm Oil (RSPO) in 2004, and reports annually on its sustainable and responsible sourcing practices. In 2016, the Company introduced its own Responsible Palm Oil Sourcing Policy, which refers to the RSPO manual, the United Nation Guiding Principles on Business and Human Rights (UNGPs), International labour Organization (ILO) Conventions, and the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security (VGGT).

Through the implementation of this Policy, the Company reinforced its commitment to engaging with business partners and relevant stakeholders on environmental and human rights issues related to its procurement of palm oil. The promotion of sustainability has attracted new businesses partners including consumer food manufacturers, retailers, and investors who focus on ESG.

5.2. Case study 2: Recycle system development of municipal and industrial waste to useful raw chemicals

Background:

The case study concerns a system of waste treatment to useful chemicals developed by S Chemical Co using a microorganism by LanzaTech. Various kinds of waste generated from homes and factories are used as carbon feedstocks. They are gasified to generate hydrogen and carbon monoxide (CO), and then converted to ethanol using anaerobic fermentation technology.

The solution:

As engineering solution from the life cycle method, the produced ethanol can be used as fuels or solvents or can be used as raw material for ethylene and produce polyethylene or used in variouschemical industry fields. Between 2014 and 2018, a pilot study to prove the concept was carried out by running the facility of 10 000 litres per year from gasified waste.

A demo facility capable of treating 20 tonnes of waste per day was constructed for operation in 2022. In the future, a vision to realize a circular ecosystem on a community-by-community basis, aiming for processing capable of 200 tonnes per day or more (equivalent to the waste generated by 200,000 people per day), will be constructed in Japan and elsewhere.

Results:

- Public intervention and supporting policies: It is necessary to support the demonstration of feasible implementation at the municipal level in terms of cost and operation. In addition, when the facility is installed at multiple locations, it is necessary to provide an education program for operations.
- The cost competitiveness is currently weak against fossil resource-derived products. Therefore, direct support such as subsidies, taxation such as carbon pricing, fossil usage restrictions, are useful. Indirect support from multiple perspectives such as regulatory aspects and standards such as ISO and green labels should be effective.
- It is also useful to expand the use of private sector vitality for public works projects using private finance initiatives or other monetary mechanisms to address the issues of local governments.

5.3. Case study 3: Renewable Energy Adoption by a Manufacturing Company in Canada

Background:

VeriForm provides precision sheet metal fabricating services to customers across North American market. The company has managed to reduce its Greenhouse Gas Emissions **from 2006 levels of 262 tonnes to less than 70 tonnes in 2019.** This improvement was made despite more than doubling the company's building size by 128% from 11,400 square feet to 26,000 square feet. The productivity has more than tripled to the point that VeriForm produces **more than 300% greater sales per kilowatt-hour** in 2019 than in 2006-2008.

VeriForm has also increased the workforce size by nearly 40% and increased wages through this period above the cost of living while providing more specialized services to higher-end accounts.

Challenges:

- **Carbon Emissions:** VeriForm's manufacturing operations rely heavily on fossil fuels, leading to significant carbon emissions and environmental impact.
- **Energy Costs:** Rising energy costs and volatility in energy markets pose challenges for VeriForm's operational expenses and long-term sustainability.

Initiatives:

- **Solar Panel Installation:** VeriForm invests in the installation of rooftop solar panels on its manufacturing facility to harness renewable solar energy for electricity generation. The solar panels are strategically positioned to maximize sunlight exposure and energy production.
- **Energy Efficiency Upgrades:** In conjunction with solar panel installation, VeriForm implements energy efficiency upgrades such as high-efficiency HVAC systems, heating water temperature reduction, and insulation improvements to reduce energy consumption and enhance overall energy performance.
- **Carbon Offsetting Programs:** To further mitigate its carbon footprint, VeriForm participates in carbon offsetting programs by purchasing carbon credits or investing in projects that promote renewable energy, reforestation, or energy efficiency initiatives and achieved Canadian net zero certification.

Results:

- **Carbon Emissions Reduction:** The adoption of solar energy and energy efficiency upgrades enables VeriForm to significantly reduce its reliance on fossil fuels and lower its carbon emissions. Generating clean electricity from solar panels VeriForm avoids the emission of GHGs associated with conventional grid electricity.
- **Cost Savings:** Efficient automated HVAC systems and energy efficiency measures result in substantial cost savings for VeriForm by reducing electricity bills, minimizing energy waste, andmitigating exposure to volatile energy prices. These savings contribute to improved profitability and financial stability for the company.
- **Environmental Stewardship:** VeriForm's commitment to carbon emissions reduction and renewable energy adoption demonstrates its environmental stewardship and corporate social responsibility. By taking proactive steps to mitigate climate change and reduce its environmental impact, the company enhances its reputation as a responsible corporate citizen and attracts environmentally conscious customers and investors in metal fabrication sector.

This case study is regular example how a small or medium-sized manufacturing company can achieve carbon emissions reduction goals through the adoption of renewable energy technologies such as solar power and implementation of energy efficiency measures.

By integrating sustainability practices into its operations, a medium size business not only reduces its environmental footprint but also realizes financial benefits and strengthens its competitive position in the market, particularly export to the markets where carbon intensity and emissions performance.

Chapter 2.

Social

Glossary of the main terms in Chapter 2

Term	Definition
Capacity Building	Approaches to enhance the skills, knowledge, and capabilities of individuals and organizations to engage in sustainable practices.
Due Diligence	A comprehensive process that businesses undertake to become aware of, prevent, and address their human rights impacts.
Economic Inequality	The disparity in income and wealth distribution among individuals or groups within a society, leading to unequal access to resources and opportunities.
Environmental, Social, and Governance (ESG) Metrics	Criteria used to evaluate a company's performance in areas of environmental sustainability, social responsibility, and governance practices.
Human Rights	Moral principles or norms that describe certain standards of human behavior, protected as natural and legal rights in municipal and international law, applicable to all human beings.
Impact Assessments	Evaluations that go beyond immediate effects to measure broader impacts of engagement on the community, such as economic benefits, environmental improvements, or enhancements in social well-being.
Inclusive Social Capital Development	Efforts to build social capital that is accessible to all members of a community, regardless of their background or circumstances, promoting equity and reducing inequalities.

Term	Definition
Life Cycle Assessment (LCA)	A systematic analysis of the environmental impacts of products or services throughout their entire life cycle, from raw material extraction to disposal.
Risk Assessment and Management	The process of identifying potential hazards, assessing the levels of risk associated with these hazards, and implementing measures to control or eliminate them.
Social Capital	The networks, relationships, and norms that shape the quality and quantity of social interactions in a society. It encompasses the collective value of social networks and the norms of reciprocity that arise from these networks.
SROI (Social Return on Investment)	A metric that measures the social value created for each unit of currency invested, used to quantify the social impact of programs or initiatives.
Stakeholder Mapping and Analysis	Identifying key community stakeholders, understanding their interests, concerns, and levels of influence to prioritize engagement efforts.
Sustainable Development	Development that meets the needs of the present without compromising the ability of future generations to meet their own needs, encompassing economic, social, and environmental sustainability.

1. Introduction

Why Social Sustainability Is Important?

The social component of ESG focuses on the company's relationships with its stakeholders, including employees, customers, suppliers, and communities. It addresses issues such as labor practices, human rights, health and safety, diversity and inclusion, and community engagement. Social sustainability is critical for building trust, maintaining a positive reputation, and ensuring long-term business viability.

Social metrics deal with employee relations, diversity and inclusion, community impact, customer satisfaction, and human rights practices. Companies are evaluated on their ability to create a positive social impact, uphold ethical labor practices, and contribute to the well-being of their stakeholders.

1.1. Connection to Environmental and Governance Components

Environmental (E)

Social issues are often intertwined with environmental concerns. For example, environmental degradation can lead to social problems such as displacement of communities and health hazards. Addressing environmental issues can improve social outcomes in the long run.

Governance (G)

Strong governance is essential for ensuring that social policies are effectively implemented and monitored. This includes establishing ethical guidelines, promoting fair labor practices, and ensuring transparency in reporting social impacts. Good governance practices ensure that social initiatives are aligned with the company's overall strategy and values.

Addressing social issues is fundamental for achieving sustainability, as it ensures that the needs and rights of all community members are considered and met. Social topics like education, healthcare, and gender equality are crucial because they directly impact the well-being and resilience of communities. Without adequate education and healthcare, individuals cannot fully contribute to or benefit from economic activities, limiting overall growth. Gender equality is also vital, as it ensures that all members of society have equal opportunities to participate in and benefit from development processes.

2. Social Risks

2.1. Social Risks and Their Impact on Companies

Social risks are potential threats that arise from societal issues, significantly impacting businesses. Companies face these risks due to factors such as economic inequality, lack of education, inadequate healthcare, and gender discrimination.

Common social risks include economic inequality, which leads to reduced consumer spending and a less stable workforce; lack of education, limiting the availability of skilled labor; inadequate healthcare, resulting in higher absenteeism and lower productivity; and gender discrimination, leading to a lack of diversity and potential legal issues.

2.2. Risks and Consequences of Neglecting Human Rights

Legal Repercussions

There are a growing number of laws and regulations that require businesses to respect human rights, and failure to comply can result in litigation, fines, and sanctions.

Reputational Damage

In the information age, news of human rights violations can spread quickly, leading to negative publicity and harm to a company's brand. This can erode customer trust and loyalty and ultimately impact on the bottom line.

Consumer Boycotts

Consumers are increasingly aligning their purchasing decisions with their values. There is a heightened likelihood of boycotts and divestments from companies associated with human rights abuses.

Investor Scrutiny and Divestment

Investors are placing more emphasis on environmental, social, and governance (ESG) criteria, which includes human rights performance. Poor human rights records can lead to divestment and a shrinking investor base.

Operational Disruptions

Conflict with communities and poor labor relations can lead to disruptions in operations. Protests, strikes, and other forms of unrest can affect productivity and profitability.

Supply Chain Vulnerabilities

Human rights abuses within the supply chain can lead to disruptions and additional costs. Businesses are expected to conduct due diligence to ensure their suppliers adhere to human rights standards.

Loss of Social License to Operate

Engagement helps businesses earn the trust and approval of local communities, known as a "social license to operate". Failing to meet expectations for ethical behavior, environmental stewardship, or social responsibility can erode this trust and acceptance, jeopardizing the company's ability to operate.

Respect for human rights is not only a moral and legal necessity but also a strategic business approach. Companies that proactively incorporate human rights into their core strategies can navigate the complex business landscape with greater confidence and stability, ensuring they contribute positively to the societies in which they operate.

Tools and approaches

Various tools and standardized metrics are available for identifying, assessing and mitigating social risks and informed decision-making e.g., social impact assessment.

Social Impact Assessment (SIA)

Social Impact Assessment (SIA) is a methodological approach used to analyze, monitor, and manage the social consequences of development projects, policies, programs, or any planned interventions. It aims to anticipate and mitigate negative impacts while enhancing positive outcomes for communities and stakeholders involved.

Impact assessments go deeper to evaluate the broader effects of engagement on the community, such as enhancements in social well-being. These assessments may use a range of metrics (indicators), from changes in local employment rates to improvements in public health statistics.

ESG Metrics for Social Performance

- **Social (ESG) metrics:** Relevant social metrics are essential tools for evaluating a company's social performance. Social metrics provide a quantitative and qualitative assessment of a company's adherence to social responsibility.
- **Key Performance Indicators (KPIs):** Specific KPIs related to community engagement might include the number of community initiatives supported, response times to community inquiries, and the level of community representation in decision-making processes. These indicators can be tracked over time to measure progress.

Key social metrics within ESG frameworks include, but not limited to:

Employee Diversity and Inclusion

Metrics include the percentage of women and minorities in the workforce and leadership positions, gender pay gap, and policies promoting diversity and inclusion.

Community Engagement

This metric assesses a company's involvement in local communities, including charitable contributions, volunteer programs, and community development initiatives.

Human Rights

Metrics include the presence of human rights policies, incidents of human rights violations, and measures taken to address these issues.

Labor Practices

This involves metrics related to employee relations, including turnover rates, labor relations, and the presence of labor unions.

Health and Safety

Metrics include injury rates, lost time injury frequency rates (LTIFR), and the implementation of occupational health and safety management systems.

Applying the ESG metrics effectively requires a systematic approach that integrates these tools into a company's operations and reporting processes. Here are some practical applications:

Integrating Best Practices and Standards into Policies

Once relevant best practices and standards are identified, they should be integrated into the company's policies and procedures. This includes setting clear objectives, assigning responsibilities, and establishing mechanisms for monitoring and reporting.

Training and Awareness

Employees should be trained on the importance of these standards and how to implement them. This ensures that everyone in the organization understands their role in achieving compliance and contributing to sustainability goals.

Regular Monitoring and Reporting

Companies should establish regular monitoring and reporting mechanisms to track progress against the standards and metrics. This involves collecting data, analyzing performance, and reporting findings to stakeholders.

3. Inclusive Social Capital Development/Capacity Building

3.1. Key Components of Effective Social Capital Development

1. Community Engagement and Empowerment

Community engagement is the process by which companies, organizations and other entities establish and maintain a constructive dialogue and partnership with the communities in which they operate. Community engagement involves active collaboration and shared decision-making with local stakeholders to achieve long-term environmental stewardship, social equity, and economic viability. It is a holistic approach that considers the social and environmental impacts of an organization's activities and recognizes the community as a key stakeholder in both the challenges and solutions related to sustainable development.

2. Capacity Building for Sustainable Development

Enhancing Skills, Knowledge, and Capabilities

This can be addressed through continuous learning opportunities such as workshops, seminars, and mentoring programs. The development of leadership and project management skills, as well as specialized knowledge in areas such as environmental management and social entrepreneurship, is crucial.

Education and training equip individuals with the tools to engage in sustainable practices, while knowledge sharing helps spread innovative solutions and best practices across communities, contributing to a culture of learning and adaptation.

3. Creating and Sustaining Inclusive Networks and Partnerships

Fostering Inclusive Networks

This involves creating collaborative spaces that welcome people from different backgrounds and sectors, such as business, government, and civil society. Such spaces encourage the exchange of ideas and resources, leading to broader and more innovative solutions.

4. Leveraging Technology and Innovation for Social Capital Enhancement

Role of Technology and Innovation

Technology can be a great enabler for building social capital. Online platforms can connect people across vast distances, allowing for the sharing of ideas and collaboration without geographical barriers.

Figure 16. Key Components of Effective Social Capital Development

Each of these components contributes to the development of strong social capital, which in turn underpins a thriving, resilient, and sustainable community. The integration of these elements creates a dynamic and inclusive environment where all community members can contribute to and benefit from collective growth and well-being.

Social Issues Affecting Businesses in Azerbaijan

1. **Human Resources:** Businesses in Azerbaijan face challenges due to skill gaps and a shortage of qualified employees. Existing educational programs may not always align perfectly with the rapidly changing demands of employers in terms of professional competences. Companies must invest in training programs and offer competitive compensation to attract and retain top talent. Addressing these issues can enhance operational efficiency and competitiveness.
2. **Employee rights:** Ensuring employee rights are upheld is crucial for maintaining a positive work environment and avoiding legal issues. Companies should focus on complying with labor laws and fostering a supportive workplace culture.
3. **Gender Inequality:** Gender disparities in Azerbaijan limit the participation of women in the workforce, especially at managerial posts. This not only affects social equity but also results in a loss of potential talent and diversity in business operations. Companies that fail to address gender inequality may face reputational risks and miss out on the benefits of a diverse workforce.

Social Approaches Adopted by Businesses in Azerbaijan

Azerbaijan faces several local challenges and social issues that impact its sustainable development efforts. Several companies in Azerbaijan have implemented strategies to address these social issues, improving their operational resilience and contributing to social development. These efforts aim to create a more inclusive and resilient society, which is crucial for the country's overall development and sustainability.

1

Community Engagement and Economic Inclusion

Companies in Azerbaijan initiated programs aimed at economic inclusion. By providing affordable services and supporting local entrepreneurs through business training, companies help reducing economic and social inequality, driving small regional businesses. These initiatives not only expand the company's market base but also foster economic stability in the communities they serve.

2

Educational Partnerships

Some company has partnered with local universities and technical schools to improve education quality. The company offers scholarships, internships, and training programs to equip students with industry-relevant skills. This approach not only builds a skilled workforce for the company but also enhances educational opportunities for the broader community.

3

Healthcare Initiatives

Certain company operating in Azerbaijan has invested in local healthcare infrastructure. The company supports health clinics and provides medical supplies and training to healthcare professionals. These efforts improve employee health and productivity while also demonstrating the company's commitment to community well-being.

4

Promoting Gender Equality

Some local companies have launched programs to promote gender equality within its operations. This includes implementing fair hiring practices, offering leadership training for women, and supporting female entrepreneurs through financial services tailored to their needs. These initiatives help the companies harness the full potential of the workforce and enhance its reputation as a socially responsible organization.

4. Major social topics for businesses

4.1. Occupational Health and Safety

Occupational Health and Safety (OHS) refers to the rules, regulations, and procedures designed to provide a safe and healthy work environment for workers, contractors, visitors, and the general public. It entails putting in place procedures to control and reduce workplace risks and hazards that might lead to accidents or illness. OHS goes beyond physical safety to cover the psychological and emotional well-being of employees in the workplace.

The significance of OHS cannot be understated. It is an essential aspect of a sustainable workplace as it:

Ensures a Safe Working Environment

By adhering to OHS standards, organizations help prevent workplace injuries and illnesses, which can have severe impacts on the individuals involved and their families. From an ethical stance, every employer has a responsibility of care to guarantee that workers, contractors, and visitors are not harmed in the workplace. Ethical OHS practices show a dedication to the well-being of individuals, which is the essence of corporate social responsibility.

Enhances Employee Well-being

A strong OHS program contributes to the well-being of employees by promoting safe working practices and providing a structure that supports their health and safety at work. The basic human right to a safe and healthy working environment is recognized worldwide, and corporations have a moral obligation to respect it.

Increases Productivity	Employees who work in a safe and healthy environment are more likely to be productive. OHS programs can lead to reduced absenteeism and turnover rates, and improved morale and employee engagement.
Legal Compliance	Compliance with OHS regulations is not just a moral obligation but a legal requirement in most jurisdictions. Organizations must comply to avoid penalties and legal repercussions. Failure to comply with the OHS regulations can result in fines, legal litigation, and other penalties, not to mention irrevocable harm to the company's reputation and operational license.
Protects Organizational Reputation	Organizations known for strong OHS practices often enjoy a better reputation, which can be crucial for attracting and retaining talent, as well as customers who increasingly prefer safety-conscious and responsible businesses.

4.2. Business Imperative for Effective OHS Program

In terms of business, OHS is critical for risk management and cost savings. Accidents and illnesses can cause substantial financial strain owing to medical expenses, lost workdays, and perhaps higher insurance rates. Furthermore, in today's environment, when information is quickly circulated, any OHS carelessness can result in reputational harm and a loss of customer and investor trust, which can be more expensive than regulatory penalties.

4.3. Key Components of an Effective OHS Program

An OHS program is not a static set of guidelines but a dynamic system that integrates various elements to address the multifaceted nature of workplace health and safety.

It is through a robust OHS program that businesses can effectively anticipate, identify, and mitigate potential hazards, ensuring a culture of safety that permeates every level of the organization.

This program is not merely about compliance with regulations; it represents a proactive commitment to the safety and health of every individual affected by the organization's operations. It’s an ongoing endeavor to maintain and continuously improve a work environment that prioritizes safety as an indispensable aspect of the workplace ethos.

A well-crafted OHS program embodies the organization’s dedication to a safety-first mindset and is indicative of a responsible corporate citizen that values its workforce and community. It also acts as a strategic business advantage, enhancing productivity through the reduction of accidents and injury-related downtime.

1. Risk Assessment and Management

The cornerstone of any OHS program is the process of risk assessment and management. This entails taking a methodical approach to detecting possible workplace hazards, analyzing the degrees of risk associated with these hazards, and putting controls in place to reduce or eliminate them. A proactive approach to hazard identification and risk control is critical because it enables for the detection and prevention of accidents before they occur. This process should be continuous, with regular evaluations to accommodate changing situations and processes.

2. Health and Safety Policies and Procedures

Clear and comprehensive OHS policies and procedures are vital for providing a framework for safe work practices. They serve as a reference point for all employees and must be communicated effectively to everyone in the organization. These policies cover various aspects, including emergency response plans, injury reporting protocols, and hazard communication standards. For instance, an emergency response policy should detail procedures for evacuation, while a hazard communication policy would describe how information about the hazardous materials in the workplace is conveyed.promoting efficient resource use, environmental stewardship, and inclusive growth strategies that benefit all members of the community.

3. Training and Education

Regular OHS training is an indispensable requirement for all employees, and it is particularly critical for those in higher-risk roles. Training programs should be designed to be effective and engaging, ensuring that employees not only understand the safety procedures but are also able to implement them. Training should be an ongoing process, with refresher courses to keep knowledge up-to-date and drills to practice response to potential incidents.

4. Employee Engagement and Participation

Employee engagement and participation are essential to a dynamic OHS program. Involving employees in safety committees and encouraging feedback are proven strategies that help to cultivate a culture of safety. When employees are involved, they are more likely to be committed to and take ownership of the OHS practices, leading to continuous improvements in safety standards.

5. Monitoring, Reporting, and Continuous Improvement

Ongoing monitoring and reporting are necessary for evaluating the effectiveness of an OHS program. Regular inspections, safety audits, and prompt incident reporting are tools that help organizations to track their performance. Analyzing this data is critical for identifying trends and areas for improvement. A robust OHS program not only addresses immediate concerns but also looks to continuous improvement, learning from past incidents, and staying updated with best practices and technological advancements in safety.

Figure 17. Key Components of an Effective OHS Program

An effective OHS program is multifaceted and requires the commitment of both the employer and the employees. It is a dynamic system that evolves in response to changing workplace conditions, advancements in industry standards, and legislative updates. Through diligent application of these key components, organizations can ensure that they not only comply with legal requirements but also protect their workforce and ultimately enhance their operational efficiency.

5. Human Rights

5.1. Why Human Rights Are Essential for Sustainable Business?

Human rights are integral to achieving true sustainability in business practices. This importance stems from several key factors that align ethical conduct with long-term corporate success:

1. Ensuring Social Equity and Justice
Human rights provide a framework for treating all individuals with respect and dignity, regardless of their background or work position. This fosters an inclusive, equitable work environment and society. By upholding these principles, businesses contribute to a more just world, which is a fundamental aspect of sustainable development goals.

2. Risk Management

Respecting human rights helps in mitigating a wide range of risks. These include legal risks, such as fines and sanctions for non-compliance with international human rights laws, and reputational risks, where public knowledge of human rights abuses can lead to consumer boycotts and brand damage. Effective human rights practices serve as a preventive measure against operational and strategic risks, safeguarding the company's long-term viability.

3. Strengthening Stakeholder Relations

Companies that demonstrate a commitment to human rights are better positioned to build strong relationships with their stakeholders, including employees, customers, suppliers, and the communities in which they operate. This trust is crucial for developing a sustainable business model, as it enhances cooperation, loyalty, and positive engagement from all stakeholders.

4. Enhancing Workforce Morale and Productivity

Respect for human rights within the workplace, including fair wages, safe working conditions directly impacts employee morale and productivity. A motivated and healthy workforce is more efficient and innovative, driving the company's performance and sustainability.

5. Attracting Investment and Accessing Markets

Adherence to human rights attracts socially responsible investments and enables access to global markets, particularly in regions where compliance with high ethical standards is a prerequisite. Investors are increasingly looking to minimize their risk by investing in companies with effective human rights policy implementation.

6. Driving Regulatory Compliance

Globally, regulations regarding corporate social responsibility and sustainability are becoming stricter. Companies committed to human rights are better prepared to meet these regulatory requirements, avoiding legal pitfalls and positioning themselves favorably in the regulatory landscape.

By emphasizing these factors, businesses can clearly see the tangible benefits of integrating human rights into their sustainability strategies. This approach not only ensures compliance with global standards but also fosters a resilient and forward-thinking business environment.

5.2. Supplier Social Assessment (SSA)

Supplier Social Assessment (SSA) is a crucial process in sustainability management that involves evaluating the social performance of suppliers to ensure they adhere to ethical, labor, and human rights standards. This assessment helps organizations identify potential social risks in their supply chain and take corrective actions to promote responsible sourcing practices.

Key Components

- **Supplier Selection Criteria**

  Establishing clear criteria for selecting suppliers based on their social performance. This includes evaluating their labor practices, workplace safety, and adherence to human rights.

- **Questionnaires and Audits**

  Utilizing detailed questionnaires and conducting on-site audits to gather information about suppliers' social practices. This helps in verifying their compliance with established standards and identifying areas for improvement.

- **Stakeholder Engagement**

  Involving various stakeholders, including workers, local communities, and NGOs, in the assessment process. This ensures a comprehensive understanding of the suppliers' social impact and fosters transparency.

- **Risk Identification and Management**

  Identifying potential social risks such as child labor, forced labor, discrimination, and poor working conditions. Developing risk management strategies to mitigate these issues and ensure ethical practices throughout the supply chain.

- **Continuous Improvement**

  Encouraging suppliers to adopt continuous improvement practices by providing training, resources, and support. This helps suppliers enhance their social performance and align with the company's sustainability goals.

6. Case studies/best practice with a focus on social component

6.1. Case study 4: İş Bank's "Agile Workshop" - Agile Transformation for Human Rights and Organizational Efficiency

Background:

The "Agile Workshop" initiative focuses on establishing Agile Areas within İş Bank, where employees from various functions collaborate to address critical issues swiftly and innovatively. By 2023, İş Bank had established 25 Agile Areas, engaging 1,660 employees across 225 Agile Teams. The initiative includes the creation of an extensive training catalog under the Agile Academy, designed to provide continuous learning and development opportunities for both internal and external stakeholders.

Objectives

The primary objectives of the "Agile Workshop" initiative are:

- **Enhance Decision-Making:** Implement agile methodologies to enable faster, more efficient decision-making processes.
- **Promote Innovation:** Foster a culture of innovation by bringing together diverse teams to collaboratively solve problems.
- **Improve Employee Satisfaction:** Increase employee engagement and satisfaction through a more dynamic and inclusive work environment.
- **Establish Agile as a Core Model:** Transition the agile working model to be the primary operational framework within the bank.

Importance and Impact

Human Rights and Employee Welfare

One of the critical aspects of the "Agile Workshop" initiative is its focus on human rights and employee welfare. Agile methodologies inherently promote a more inclusive and collaborative work environment, where employees' voices are heard, and their contributions are valued. The initiative has led to substantial improvements in employee satisfaction, as evidenced by a rise in satisfaction rates from 76.8% to 87% between the initial survey and December 2023.

Connection to Human Rights

The "Agile Workshop" initiative aligns with several human rights principles by fostering an environment that promotes dignity, respect, and equality. Key human rights aspects addressed include:

1. Right to Equal Opportunity: By encouraging collaboration across various functions and levels, the initiative ensures that all employees have equal opportunities to contribute and grow.
2. Right to Education and Development: The Agile Academy provides extensive training and development programs, ensuring employees have access to continuous learning opportunities.
3. Right to a Safe and Healthy Work Environment: Agile Areas are designed to be inclusive and supportive, promoting mental well-being and job satisfaction.

Contributions to Employees and Society

The "Agile Workshop" initiative contributes positively to both employees and society at large. For employees, the initiative provides a platform for professional growth, increased job satisfaction, and a sense of belonging. The training and development programs offered by the Agile Academy equip employees with valuable skills, enhancing their career prospects and personal development.

Conclusion

By integrating agile methodologies into its operations, İş Bank has enhanced decision-making processes, fostered a culture of collaboration, and significantly improved employee satisfaction. This case study highlights the initiative's success in aligning business objectives with human rights principles, ultimately contributing to a more dynamic and inclusive work environment.

6.2. Case Study 5: Cargill's "1000 Farmers Endless Prosperity" Program

Program Overview

"1000 Farmers Endless Prosperity" was initiated to foster sustainable growth and increase the productivity of farmers in Türkiye. By setting robust targets for emission reductions and deforestation-free supply chains, the program seeks to instill sustainable practices at the heart of agriculture while ensuring food security and farmers' welfare.

Sustainable Development Goals and Strategy as a Background for the Program

Cargill's strategies directly contribute to the SDGs by focusing on:

Climate

Recognizing climate change as a critical threat, Cargill commits to measurable goals for emission reduction, aiming for a 30% decrease per ton of product by 2030, a target that speaks to the ambitious global efforts needed to combat climate change.

Land & Water

The company pledges to manage water sustainably and eliminate deforestation in its supply chains by 2030, acknowledging the finite nature of these essential resources and the need for their judicious use.

People

Upholding human rights, promoting gender parity, and improving farmers' livelihoods, the program aims to support 10 million farmers by 2030 through education and the introduction of sustainable agriculture practices.

The program's approach is multifaceted:

Engagement

Farmers are brought into the fold through active outreach, ensuring they are aware of and can participate in the program

Education and Training

Providing more than 60 hours of in-class and online training, the program empowers farmers with knowledge in agricultural best practices, financial literacy, and safety

Digital Transformation

By introducing farmers to digital agricultural tools, the program fosters a modern approach to farming. This includes digital soil analysis and access to meteorological ata, enabling farmers to make informed decisions that boost yield and sustainability

On-the-Ground Support

Cargill offers field-specific consultancy services, granting farmers direct access to experts and tailored advice that can immediately impact their farming practices

This strategic deployment has been pivotal in translating Cargill's global sustainability goals into localized actions that resonate with and benefit the farming communities in Türkiye.

Achievements

Cargill's reach is expansive, covering an area equivalent to 80,000 football fields. The program provides a myriad of services, including but not limited to, digital soil analysis and meteorological services. Farmers receive continuous support and training, ensuring they are well-equipped to meet the evolving challenges in agriculture.

Since its inception, the “1000 Farmers Endless Prosperity” program achieved notable successes:

Scale of Reach

Expanding across 40,000 hectares, the program has grown to encompass a vast array of agricultural land, providing a substantial platform for impact.

Productivity Increases

Farmers following the program’s guidelines have witnessed up to 23% increases in yield, even in the face of adverse climate conditions - a clear indication of the program’s efficacy.

Education and Uptake

The extensive training provided has resulted in a marked increase in the adoption of sustainable practices and improved financial and digital literacy among farmers.

Community Upliftment

The program’s success is not measured solely by yield increases but also by the enhanced quality of life and economic stability it brings to farmer communities.

Social Impact and Community Contribution

The social impact figures serve as a quantifiable testament to the program's success, with each Turkish Lira invested yielding a social return of over threefold. **Moreover, financial literacy, for example, has seen an 80% improvement among farmers.** This uptick signifies far more than an ability to manage finances; it embodies empowerment, enabling farmers to make informed decisions, access new markets, and secure their economic futures.

Agricultural know-how is another pillar of the program where Cargill has made considerable strides. An 88% enhancement in this area translates into a community that is not only better equipped to implement sustainable practices but also more adept at responding to the challenges posed by climate change. This increase in capability ensures that knowledge is retained within the community, fostering a culture of continuous improvement and innovation.

The overarching impact is a community that stands resilient, enlightened, and equipped to contribute actively to the global sustainability agenda, setting a precedent for other corporations to follow.

Conclusion

The “1000 Farmers Endless Prosperity” initiative exemplifies how dedicated corporate responsibility programs can lead to substantial environmental and social improvements. Cargill’s approach offers a replicable model for other SMB/SMEs, demonstrating that sustainability is both a beneficial and a necessary part of modern agricultural practices.

Chapter 3.

Governance

Glossary of the main terms in Chapter 3

Term	Definition
Agile	A flexible and adaptive approach to managing sustainability projects and initiatives, allowing for quick responses to changing circumstances and stakeholder needs.
Conflict of Interest	A situation where an individual or entity's personal, financial, or professional interests could potentially influence their decision-making in a manner that undermines impartiality or fairness.
ESG Disclosure	Reporting and transparency practices relating to environmental, social, and governance (ESG) factors within a company's operations, aimed at informing stakeholders about its sustainability performance.
Grassroots Approach	A bottom-up strategy involving local communities or individuals to initiate and drive sustainability initiatives, often focusing on community engagement and empowerment.
Investor Divestment	The process of withdrawing financial support or investments from companies or industries that do not meet certain ESG criteria or sustainability standards.
Peer Benchmarking	Comparing the sustainability performance and practices of a company with those of its industry peers to identify areas for improvement and set performance targets.

Term	Definition
Remuneration	Compensation or payment provided to individuals, typically executives, based on their performance, including adherence to sustainability objectives and ESG criteria.
Retrofit	The process of upgrading or modifying existing infrastructure, buildings, or equipment to improve energy efficiency, reduce resource consumption, and enhance sustainability performance.
Sensitivity Analyses	Assessments performed to understand how changes in certain variables or factors may impact sustainability outcomes, helping to identify potential risks and opportunities.
SMART goals	Specific, Measurable, Achievable, Relevant, and Time-bound objectives that provide clarity and direction for sustainability initiatives and performance improvement.
VUCA period	An acronym for Volatility, Uncertainty, Complexity, and Ambiguity, describing the challenging and unpredictable nature of the current business environment.

1. Introduction

1.1. Understanding Corporate Governance in ESG

Corporate governance refers to a variety of characteristics that affect how a business is governed, directed, and controlled. It encompasses aspects like corporate structure, board composition, business ethics, and anti-corruption efforts. Although the notion of corporate governance predates the present ESG framework, its importance in promoting sustainable company practices cannot be overemphasized.

Effective corporate governance promotes openness, accountability, and ethical behavior inside firms, establishing the framework for long-term value development and risk management efforts. Corporate governance is not just one-third of the ESG equation; it is also critical in achieving both environmental and social goals. Effective governance ensures that businesses meet their environmental duties, manage social risks, and operate with ethical conduct.

Furthermore, it is one of the key reporting ESG disclosures, which influence stakeholder views and investment decisions. Robust governance structures strengthen the validity of ESG activities and enable significant progress toward sustainability goals by encouraging openness and behavioral integrity.

1.2. Profit and Responsibility: A New Business Paradigm

While profitability is still an important part of every business, an organization's mission is today acknowledged as a comprehensive commitment that includes how profits are earned. This shift in mindset is more than a passing trend; it is a necessary transition for sustainability and long-term success. Recognizing that an organization's mission is not merely a financial gain but also how that gain is attained will be a cornerstone of an efficiently governed business. In other words, a company's profits alone are insufficient; it must also consider the societal and environmental consequences of its operations. This comprehensive approach to purpose guarantees that firms function responsibly, ethically, and sustainably.

This proactive approach to sustainability may lead to lower risks, a stronger reputation, and new chances for innovation and growth. It is equally important to recognize that an organization's purpose does not function in a vacuum; it is inseparably linked to its governance structure and performance measures. If an organization's aim is to promote social and environmental well-being, its governance pillars should be structured to deliver performance that reflects this commitment. This may entail:

- Developing responsible corporate practices
- Tracking and reporting on sustainability measures
- Incorporating sustainability criteria into performance assessments and incentive systems

1.3. Redefining Mission and Vision

To really commit to sustainability, companies must critically assess and, if necessary, rethink their purpose, vision, and values. This activity clarifies the company's goal and demonstrates its commitment to long-term outcomes. A well-defined sustainability mission statement serves as a guiding light, particularly during volatile, uncertain, complex, and ambiguous (VUCA) periods. Sustainability is no more an optional extra; it is integrated into all aspects of company, from strategy and product design to operations and supply chain management. A concise sustainability mission statement explains the company's social role and directs continuous action, promoting harmony with customer and investor expectations. Different organizational functions perceive sustainability through various lenses. For example:

Legal

Reporting and compliance

Human Resources

Diversity, inclusion, and employee engagement

Public Affairs

Community engagement

R&D

Carbon footprint and product design

Supply Chain

Responsible procurement and transportation

Finance

Investor relations, risk mitigation, and financial returns

Marketing

Strategic differentiation and branding

Risk Management

Risk mitigation

Information Technology

Data management, data privacy, data infrastructure and innovation

Each viewpoint is legitimate, demonstrating the diverse nature of sustainability. However, a shared understanding is required for effective action. Therefore, a strong sustainability mission statement should resonate with management and staff by concentrating on:

- Clarity of purpose
- Linking strategy and execution
- Building on shared corporate principles
- Aligning Financial and Non-Financial KPIs
- Creating Accountability
- Developing organizational culture
- Offering a competitive advantage through ESG values

2. Oversight and Accountability

2.1. Board Responsibilities

The board of directors is primarily responsible for an organization's sustainability and environmental, social, and governance (ESG) issues. As the ultimate caretakers of an organization's long-term performance, boards must include sustainability and ESG into decision-making processes and long-term growth plans. Strong board leadership with sufficient sustainability awareness is critical for businesses beginning on a sustainable transformation path. Boards play a key part in promoting sustainable governance and guaranteeing that firms prioritize environmental, social, and governance factors alongside financial performance. Their responsibilities cover a wide variety of areas that influence the organization's approach to sustainability and ESG.

Integration into Governance and Strategy

Purpose and Strategy Alignment

Sustainability and ESG should align with the organization's mission and strategy. They are not stand-alone projects, but rather key components that direct how firms approach issues, risks, and opportunities in accordance with stakeholder expectations and global borders.

Decision-making and Risk Management

Boards should ensure that sustainability and ESG issues are integrated into all decision-making and risk-management procedures. This involves examining how sustainability risks and opportunities affect long-term value development.

Organizational Alignment and Reporting

Synchronization Across the Organization

Boards have to provide a shared knowledge of sustainability and ESG initiatives across the firm. Cross-functional cooperation and coordination across departments are required for successful deployment.

Defined Targets and Metrics

Setting explicit, quantifiable objectives and KPIs for sustainability and ESG is critical. Boards must track progress toward these goals and include them into regular reporting, ensuring that sustainability and ESG data are of the same quality and transparency as financial reporting.

High-Quality Reporting

Boards must ensure that material sustainability and ESG facts are disclosed properly and honestly. This involves synchronizing reporting with appropriate frameworks and standards including GRI, SASB, and TCFD.

Incentives and Remuneration

Linking to Performance

Incorporating ESG goals into executive performance-related compensation can incentivize desired behaviors and hold executives responsible. Boards must decide when to incorporate such targets, how much remuneration is connected to ESG goals, and which targets are most important to the organization's strategic interests.

Strategic Metrics and KPIs

Concentrate on Key Metrics

Boards should define a small number of relevant measures and KPIs that are consistent with strategic goals and sustainability targets. This simplified method can assist boards and management teams in focusing on critical issues and making informed choices.

Monitoring and milestones

Considering that numerous sustainability goals are long-term, it is critical to set shorter-term milestones to properly evaluate progress. This iterative approach enables firms to change tactics as needed while remaining aligned with long-term sustainability objectives.

Oversight Structure and Committees

Board Structure and Committee Evolution

Businesses can choose the most appropriate board structure and committee mandates for supervising ESG and sustainability. Approaches include complete board monitoring, separate sustainability committees, and incorporating sustainability into current committee tasks.

Board Structure and Committee Evolution

Businesses can choose the most appropriate board structure and committee mandates for supervising ESG and sustainability. Approaches include complete board monitoring, separate sustainability committees, and incorporating sustainability into current committee tasks.

Continuous Learning and Competence

Board Competence in ESG Matters

Board members, particularly those with financial expertise, are responsible for keeping a high degree of knowledge on key ESG problems. While external expertise might be beneficial, boards should not rely primarily on it and instead engage in continuing learning and professional growth.

2.2. Executive Leadership for SMEs

Categories of Business	Average Number of Employees (Person)	Annual Income (Thousand Manats)
Micro Enterprise	1-10	ai ≤ 200
Small Enterprise	11-50	200 < ai ≤ 3000
Medium Enterprise	51-250	3000 < ai ≤ 30000
Large Enterprise	251 and above	30000 < ai

Table 1. Division of micro, small, medium and large enterprises (according to the Law of the Republic of Azerbaijan "On Entrepreneurial Activity"

Executive leadership of small and medium-sized enterprises (SMEs) plays an important role in directing sustainability programs and creating accountability throughout the firm. Compared to bigger firms with specialized boards of directors, SMEs frequently rely largely on executive leadership to set the tone, formulate targets, and monitor the execution of sustainability policies. This handbook table delves deeply into the varied roles of executive leadership in SMEs when it comes to integrating sustainability:

Role	Description	Comparison with Larger Firms
Cultivating a Sustainable Culture	Executives interact daily with employees, fostering sustainability through personalized communication and hands-on involvement (grassroots approach)	Greater employee engagement in SMEs compared to top-down mandates in larger firms
Engaging Stakeholders	Direct and genuine engagement with employees, clients, and suppliers, building trust and cooperation	More meaningful interactions and responsiveness in SMEs than formal, hierarchical engagement in larger firms

Undertaking Sustainable Practices	Prioritizing sustainable practices that provide tangible benefits like cost savings and risk mitigation, relying on creative, low-cost solutions (due to resource restrictions)	Encourages a culture of experimentation and innovation in SMEs, contrasting with established sustainability departments, significant budgets and bureaucratic procedures in larger firms
Welcoming Innovation and Adaptation	Senior executives facilitate agile decision-making and quick experimentation with new ideas, fostering an innovative culture	Faster iteration and learning in SMEs compared to the siloed structures that may hinder innovation in larger firms
Navigating Regulatory Compliance	Relying on external legal counsel to navigate complex regulations, often taking a reactive approach due to limited resources	More reactive compliance in SMEs compared to proactive regulatory strategies in larger firms with specialized legal teams
Fostering Partnerships and Collaborations	Forming strategic partnerships to access resources and opportunities, utilizing professional networks and personal contacts	Dynamic and innovative collaborations in SMEs, despite challenges in visibility and brand awareness, compared to specialized partnerships team and broad networks in larger firms
Measuring and Reporting Progress	Using simple metrics for sustainability reporting, ensuring accountability and transparency through direct engagement with stakeholders (owing to limited resources and experience)	More pragmatic approach in SMEs with direct stakeholder engagement, versus specialized sustainability reporting teams (if available) and complex data management systems in larger firms

Table 2. Role comparison between board of directors and executive leadership in SMEs

2.3. Materiality Integration with Business Strategy

Derived from a fundamental accounting principle, the concept of business materiality was first centered on a single, particular goal: meeting the needs and concerns of investors. However, in recent years, corporate executives have adopted a broader perspective on materiality. They have expanded the core concepts to guide broad strategy and decision-making processes, taking into consideration not only the needs and ambitions of investors, but all organizational stakeholders. Embracing this larger definition of materiality, businesses have increasingly acknowledged some non-financial aspects as potentially critical to their success. This paradigm change was officially recognized in 2006, when the Global Reporting Initiative issued guidelines outlining the process of performing materiality evaluations in sustainability reporting.

DEFINITION: Materiality refers to identifying the issues that matter most to a company's business and stakeholders and determining how important they are.

2.4. Materiality in Sustainability Reporting and the Double Materiality Principle

Materiality is equally important in sustainability reporting as it is in financial reporting. It requires giving relevant and meaningful information to the intended audience in a way that is understandable and measurable. Given the broad spectrum of environmental, social, and governance issues, businesses have the problem of prioritizing and simplifying their reporting to focus on themes that are truly relevant and important to their stakeholders. The "Double Materiality" principle announces a paradigm shift in the reporting landscape, requesting corporations to take a dual approach when assessing materiality:

1. **Inside-Out Perspective (Impact Materiality):** This perspective encourages businesses to identify and assess the existing and potential positive and negative impacts of their business actions on a variety of sustainability issues, including environmental and social aspects.
2. **Outside-In Perspective (Financial Materiality):** This perspective comprises analyzing the possibilities as well as the risks connected with sustainability concerns for a company's financial position, including potential financial consequences and future viability of the business model.

Incorporating both views into a materiality analysis using the "Double Materiality" principle offers a comprehensive approach to finding material topics. A topic is considered material if it either presents financial risks and possibilities for company success (Outside-In perspective) or has a major influence on the environmental and societal implications of business activity (Inside-Out perspective). As a result, enterprises are required to report on these material matters in accordance with the relevant ESRS criteria, including information on strategy, governance, implemented actions, objectives, and key performance indicators.

2.5. How to Identify Potentially Material Topics?

Conducting a materiality analysis in accordance with the relevant standards requires an organized and methodical approach:

Identifying Potentially Material Topic

At the start, businesses should consider and identify sustainability issues that are potentially material and require additional assessment within the materiality study. To provide thorough coverage of all potentially material subjects, relevant standards and frameworks must be compared, such as ESRS/TCFD/SASB frameworks, industry-specific standards, sustainability ratings, and sector materiality profiles.

Consider the Value Chain

In order to fully understand the negative and positive consequences, risks, and possibilities related to each material issue, it is necessary to analyze the complete value chain, which includes direct company operations, the supplier chain, and the product usage phase. Identifying possible hotspots through relevant research and supporting these findings with independent risk and impact analyses enables a thorough materiality assessment.

2.6. How to Evaluate and Prioritize Topics?

Following the discovery of potentially material issues, the next stage is to evaluate and prioritize these topics in accordance with the Double Materiality Principle. This encompasses:

01 **Engaging Stakeholders:** It is critical to incorporate multiple stakeholder viewpoints, including specialists from science, media, trade unions, organizations, civil society, authorities, consulting firms, investors, and legal representatives. Engaging stakeholders through public comments, online surveys, interviews, and collaborative forums allows businesses to get important insights and viewpoints.

02 **Establishing Materiality Thresholds:** Companies have to establish a materiality threshold for reporting, identifying and addressing subjects that exceed it.

03 **Ensuring Methodological Transparency:** Transparency in the methodology used for materiality analysis based on double materiality is critical for accountability, credibility, and stakeholder confidence.

3. Stakeholder Engagement

3.1. Identifying Stakeholders

The process of identifying stakeholders begins with the mapping of individuals, groups, or organizations that can affect or be affected by the company's activities. This list may include internal stakeholders such as shareholders and employees, and external stakeholders such as customers, suppliers, communities, regulators, and non-governmental organizations. Stakeholders can also be classified into primary stakeholders, who have a direct stake in the company's operations (e.g., shareholders, employees, customers), and secondary stakeholders, who are indirectly affected (e.g., media, advocacy groups). A key aspect of this process is to assess the stakeholders' relative influence and interest concerning the organization's sustainability and Environmental, Social, and Governance (ESG) efforts. This evaluation enables the prioritization of engagement activities and the allocation of resources to address the most significant impacts on financial and non-financial performance.

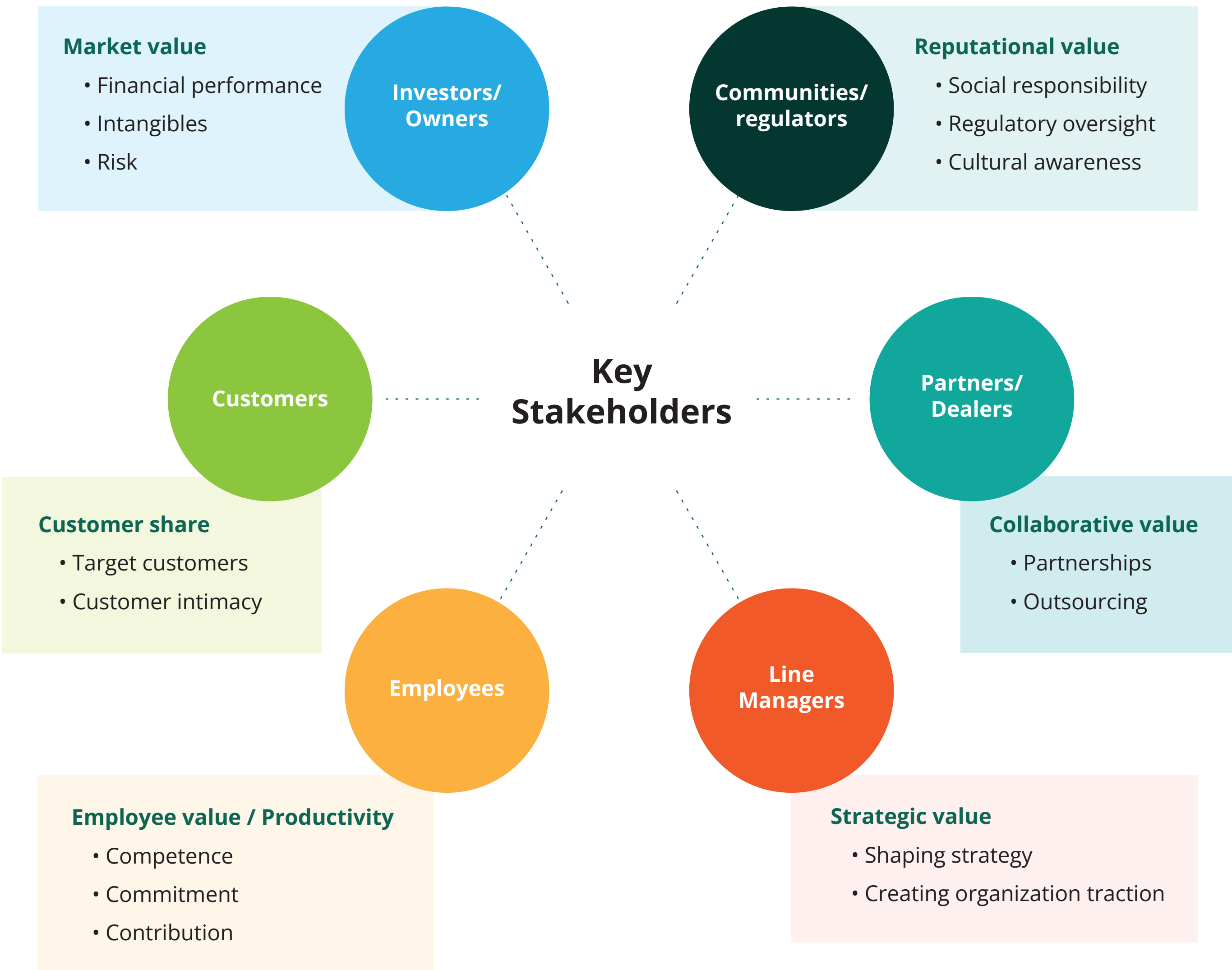


Figure 18. Key Stakeholder Classification

3.2. Engagement Strategies

Once stakeholders have been identified, the organization should set up engagement strategies that are suited to the different requirements and interests of each group. This might involve official and informal meetings, surveys, focus groups, community forums, and public reporting. The idea behind this is to promote open communication, solicit input, and build collaborative connections. This method not only recognizes the importance of stakeholders' contributions, but also actively incorporates them in decision-making processes that affect them, including their perspectives into the organization's sustainability activities.

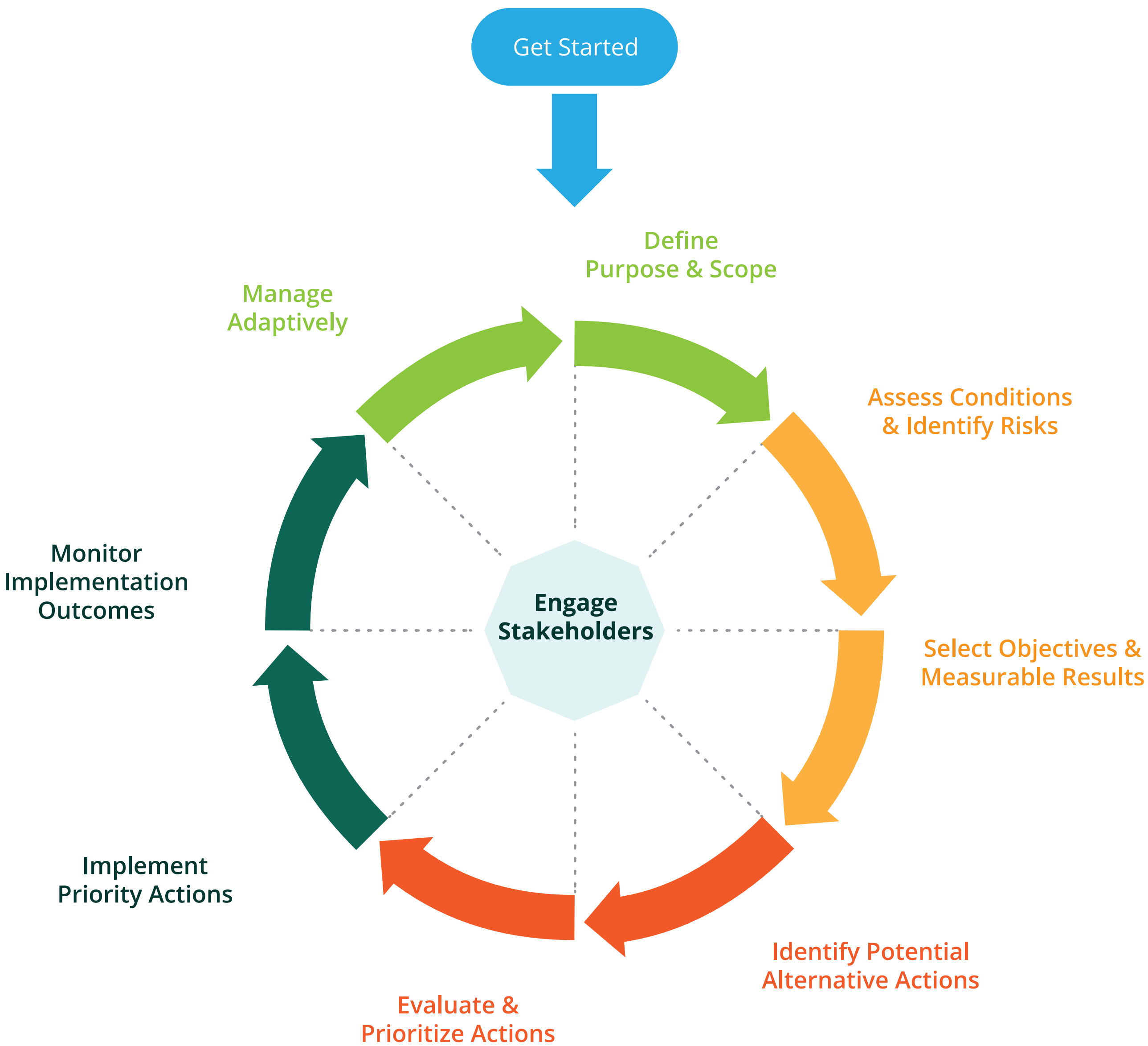


Figure 19. Stakeholder Engagement Circle

4. Risk Management

In today's fast-paced business climate, firms confront a wide range of risks, including those connected to sustainability and Environmental, Social, and Governance (ESG) challenges. Integrating these concerns into the risk management framework is critical for guaranteeing resilience, protecting reputation, and creating long-term value. We will go deeper into the process of identifying, analyzing, and managing sustainability and ESG risks, emphasizing important risk categories, mitigation strategies, consequences, and benefits.

Governance risks

Governance risks involve a wide range of issues related to the effectiveness, transparency, and accountability of an organization's decision-making processes and structures. Unlike other risks that may concern financial, operational, or strategic aspects, governance risks focus on the integrity of how decisions are made and implemented inside an enterprise.

Essentially, governance risks have the capacity to spread through all aspects of an organization's activities, distinguishing them by their pervasive effect and importance for long-term viability and reputation.

- **Regulatory Compliance:** Accidents in regulatory compliance can result in fines, penalties, legal consequences, and reputational loss, demanding strong compliance processes, internal controls, and methods for risk management.
- **Business Ethics:** Business ethics risks include bribery, corruption, fraud, and unethical behavior, which undermine company credibility, transparency, and stakeholder confidence in the organization's leadership and principles.
- **Board Effectiveness:** Board effectiveness risks include concerns such as an absence of independence, conflicts of interest, inadequate supervision, and poor judgment, which can result in governance failures, shareholder dissatisfaction, and legal proceedings.
- **Conflict of Interest:** Failure to handle conflicts of interest can result in biased decision-making, loss of trust, legal liability, and reputational harm, needing strong rules, transparency measures, and ethical monitoring.

4.1. Identification of Risks

Identifying sustainability and ESG risks entails considering a wide range of aspects that might affect the business's operations, reputation, and interaction with stakeholders. These risks can include climate change-related events (such as extreme weather or regulatory shifts), social issues (such as strikes or community tensions), governance failures (such as ethical lapses or boardroom conflicts), and emerging technological disruptions (such as cybersecurity threats or data privacy breaches).

Tools and Methodologies for Risk Identification:

Risk Registers: structured databases that document possible hazards and their consequences

Stakeholder Engagement Sessions: platforms for getting feedback on stakeholder concerns

Scenario Planning Exercises: strategic tools for predicting and preparing for future events

ESG Rating Frameworks: systems for assessing an organization's ESG performance in comparison to industry peers

4.2. Risk Assessment

Once identified, sustainability and ESG risks need to be evaluated for their likelihood, size, and possible impact on the organization's goals and value drivers. This entails undertaking extensive risk assessments that take into account both quantitative and qualitative criteria.

Tools for Assessment:

Probability-Impact Analysis

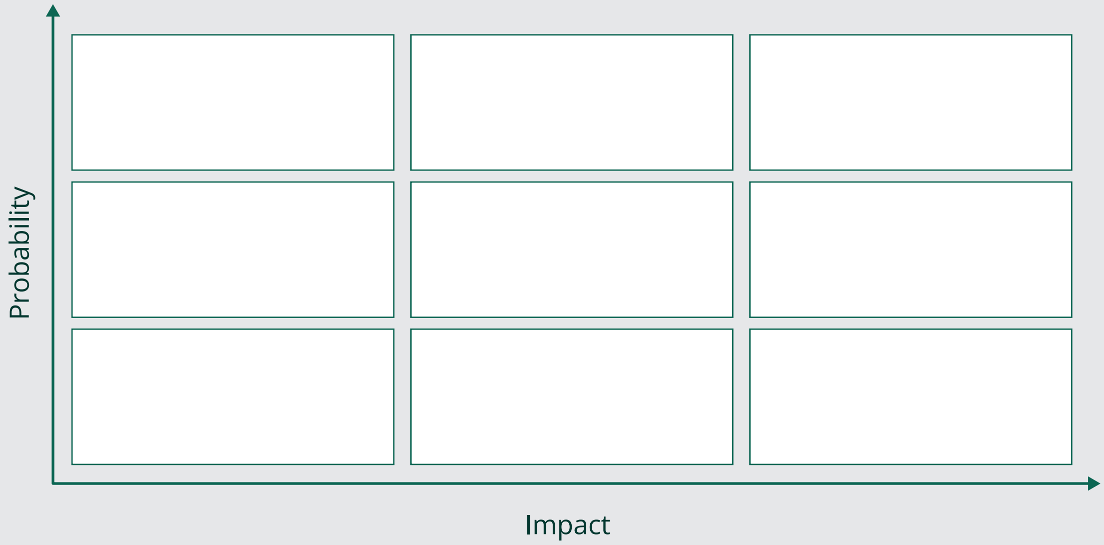
Methodologies for determining the likelihood and implications of various risk situations through company activities

Risk Probability
The odds of each risk occuring

Risk Impact
Considers possible impact on time, cost, quality, or performance

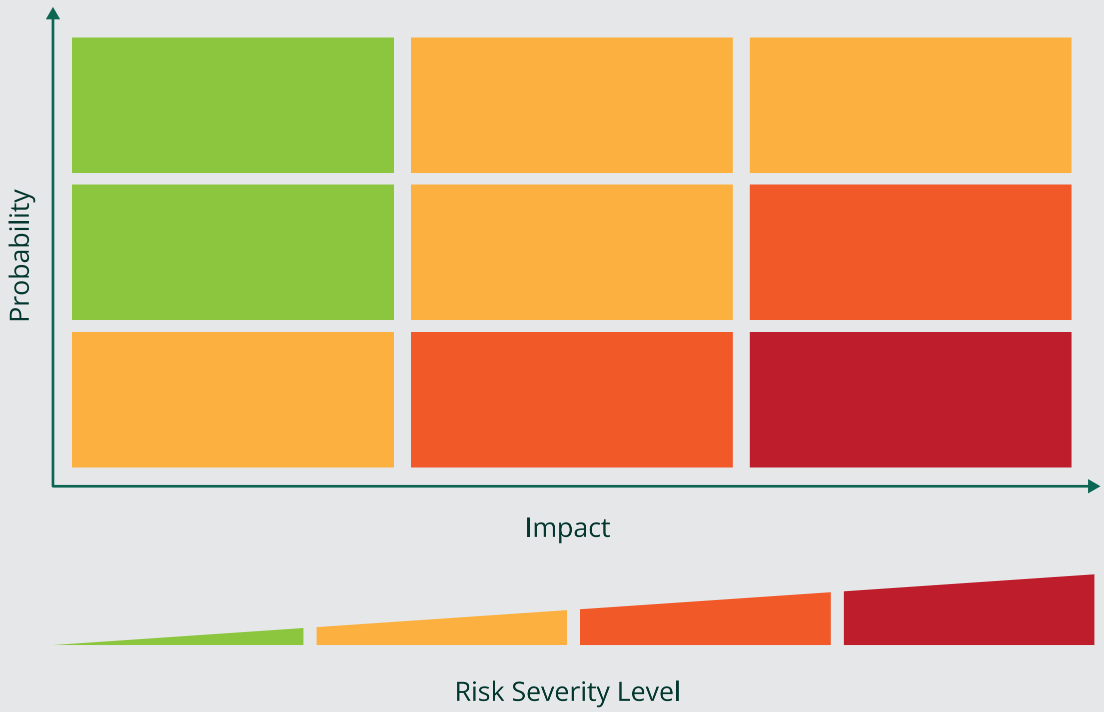
Risk Matrix

Risk matrices are grid-based systems that assess risks based on their impact and probability



Heat Maps

Heat maps are visual representations of the severity and probability of certain threats



Organizations may utilize these tools to rank risks based on severity and urgency. Furthermore, stress tests, sensitivity analyses, and peer benchmarking exercises can give more clarity into the possible effects of ESG risks, allowing for informed decision-making and risk management methods.

4.3. Management and Mitigation of Risks

Managing sustainability and ESG risks necessitates the creation and execution of preemptive risk mitigation strategies and programs. Organizations can employ a variety of techniques to mitigate these risks, including:

Improving Governance Structures

Enhancing board monitoring, setting up clear accountability systems, and incorporating ethical values into company culture can all assist in reducing governance-related risks.

Investing in resilience-building initiatives

Creating company-wide backup plans, improving data security policies, and doing frequent risk assessments and scenario planning exercises may all help organizations become more resilient to ESG threats.

Taking Pro-Active Approach

Preventive actions may include improving operational durability, diversifying supply chains, and investing in renewable energy solutions to reduce climate-related hazards.

4.4. Potential Impacts of ESG Risks and Benefits of Comprehensive Risk Management

Sustainability and ESG risks have far-reaching ramifications for firms, affecting financial, operational, and reputational aspects. Understanding these implications is critical for successful risk management and strategic decision-making. Here are the main impacts and advantages of including ESG issues into the risk management framework:

Financial Performance: ESG concerns can have a major influence on financial performance by raising expenses, drawing regulatory fines, harming reputation, and lowering market valuation.

Operational Efficiency: ESG risks can interfere with supply chains, industrial processes, and operational efficiency, resulting in reduced output and higher downtime.

Brand Reputation: ESG risks endanger brand reputation, potentially resulting in decreased stakeholder trust, customer sanctions, staff attrition, and investor divestment.

4.5. Benefits of Risk Management

Long-term Value Creation

By properly managing sustainability and ESG risks, firms may generate lasting value for shareholders, comply with sustainable development goals, and maintain competitive edge and profitability.

Enhanced Risk Awareness

Combining ESG risks with financial risks raises corporate risk awareness, allowing for proactive risk mitigation techniques and greater preparedness for future disruptions.

Optimized Resilience and Competitiveness

Tackling sustainability and ESG issues strengthens organizational resilience, encourages creativity, and positions the firm competitively in a sustainable marketplace.

Criteria	Criteria	Criteria
Scope of Impact	Primarily affects the financial performance and shareholder value	Involves broader implications impacting reputation, stakeholder relationship and long-term sustainability
Time Horizon	Often evaluated in the short to medium term, focus on immediate financial stability	Evaluated over a longer time horizon; focus on future resilience and sustainability
Factor Focus	Typically revolves around market volatility, credit default and liquidity	Encompasses a broader range of considerations, including social responsibility, ethical governance and environmental stewardship
Regulatory Environment	Subject to specific and well-established financial regulations and reporting requirements	Governed by emerging and evolving regulatory landscape

Table 3. Differences between financial and ESG risks

5. Goals and Targets

As the relevance of Environmental, Social, and Governance (ESG) aspects in the business environment grows, firms are becoming more aware of the need to establish clear and executable ESG goals. This handbook offers a precise five-step guideline to help businesses define, track, and achieve meaningful ESG targets that are aligned with their business objectives and stakeholder expectations.

Step 1	Step 2	Step 3	Step 4	Step 5
Recognize the significance of ESG goal setting	**Evaluate your ESG baseline**	**Establish SMART ESG objectives**	**Set up a data tracking system**	**Evaluate, Share, and Communicate Your ESG Targets**

Step 1

Recognize the significance of ESG goal setting

Understanding the importance of ESG goal formulation is critical in an era where ESG factors influence investment decisions, customer habits, and talent recruiting efforts. To remain competitive, establish trust, and support long-term sustainability, businesses must adopt a strategic and comprehensive approach to ESG, which involves defining relevant and attainable objectives.

Step 2

Evaluate your ESG baseline

Before commencing on your ESG journey, it is critical to assess your organization's existing ESG performance and identify key areas for development. Materiality and baseline assessments may help you analyze existing procedures, identify gaps, and focus on ESG concerns that are relevant to your company strategy and stakeholder expectations. Use modern tools and professional expert advice to speed up the assessment process and ensure data-driven decision-making.

Step 3

Establish SMART ESG objectives

Creating specific, measurable, achievable, relevant, and time-bound (SMART) ESG goals is critical for driving your organization's sustainability initiatives and showing long-term willingness to engage with stakeholders. When creating goals, verify that they are aligned with your overall company objectives and consider using existing ESG frameworks, sector benchmarks, and best practices as inspiration. Avoid establishing too ambitious goals that might be seen as greenwashing or lacking practical measures for attainment.

- **Specific:** What specifically are you planning to do? What has to be done? Who is accountable for it? What measures must be made to achieve this?
- **Measurable:** How will you determine whether you are succeeding? This is where a corporation will establish a quantifiable and traceable benchmark.
- **Achievable:** How will you achieve the goal? This is the company's reality check. The target should be reasonable, something that the team can realistically accomplish.
- **Relevant:** Is the aim related to your broader objectives? Why are you establishing this goal?
- **Timely:** When will you reach your goal? This is where a corporation should guarantee that their staff understands when the objective will be met.

IMPORTANT! Be cautious of setting overly ambitious ESG goals!

The main concern now isn't the degree of enthusiasm and adoption of ESG policy, but whether corporations will be able to meet the objectives they have set. Using SMART ESG objectives allows you to create demanding, yet attainable goals, avoiding the impression of greenwashing or merely setting goals for public relations value without a plan to meet them.

Let's illustrate an example:

Consider a corporation that wants to cut water use as part of its sustainability initiatives. Initially, their aim might be expressed simply as "reduce water usage in company operations." However, on closer analysis, this aim lacks the precision required to properly lead actions and track progress. This aim lacks precision, measurable value, and a timeline. It does not specify how much water must be decreased, when, or how success will be judged. Furthermore, it does not specify if the decrease will be accomplished by operational improvements, technological enhancements, or another method.

Now, let's make this objective SMART:

Specific: *The firm establishes a precise aim for reducing water use in its activities.*

Measurable: *They develop a clear criterion, aiming for a 20% reduction in water use relative to the baseline over the following three years.*

Achievable: *They have assessed the feasibility of this target and intend to accomplish it through the use of water-saving technology, process optimization, and personnel awareness initiatives.*

Relevant: *Reducing water use is consistent with their commitment to environmental sustainability and helps to reduce their influence on local water supplies.*

Timely: *They established a three-year deadline for achieving the 20% decrease.*

Ultimately, we obtain the following SMART goal:

Reduce water use by 20% over the next three years compared to the baseline by implementing water-efficient technology, improving processes, and promoting employee involvement.

Step 4

Set up a data tracking system

To successfully track progress toward your ESG targets and promote continual growth, you have to build a strong data collection system. Quantitative ESG metrics give useful insights into performance, assist in identifying patterns, and facilitate informed decision-making within the firm. Consider incorporating external audits and adhering to established reporting standards such as the Global Reporting Initiative (GRI) to improve data reliability, transparency, and stakeholder confidence.

Step 5

Evaluate, Share, and Communicate Your ESG Targets

After you've established your ESG goals and implemented a data monitoring system, the next stage is to assess performance, communicate progress, and proclaim your accomplishments. Create Key Performance Indicators (KPIs) for each ESG target to monitor progress, uncover possibilities for improvement, and increase responsibility within the business. Involve stakeholders in frequent communication, feedback sessions, and collaborative activities to develop a feeling of ownership, loyalty, and consistency with your ESG objectives. Finally, use multiple communication channels, including annual reports, sustainability reports, and specialized ESG platforms, to promote openness, accountability, and trust from stakeholders.

5.1. Selection of Metrics and KPIs

The selection process for KPIs should be rigorous and strategic. It should start with a clear understanding of what the organization aims to achieve with its sustainability initiatives. The KPIs chosen should reflect not just internal goals but also the external expectations and standards set by industry peers, regulators, and sustainability frameworks.

5.1.1. Financial Metrics

Financial metrics provide insights into the economic aspect of sustainability. These typically relate to the cost and revenue impacts of sustainability measures. Examples include:

- **Cost Savings:** This could be measured through the reduction in energy costs as a result of efficiency measures or savings from waste reduction strategies.
- **Revenue Growth:** Tracking the revenue generated from sustainable products or services can indicate the market demand and acceptance of an organization's sustainability initiatives.
- **Investment Returns:** Measuring the return on investment from sustainability initiatives, such as retrofitting with energy-efficient technologies, can help justify future investments in similar projects.

5.1.2. Non-Financial Metrics

Non-financial metrics, while not directly tied to monetary figures, often have significant indirect impacts on the financial health and reputation of the company. Examples include:

- **Greenhouse Gas Emissions:** These are crucial for understanding the company's climate impact. Tracking and reducing emissions are essential for responding to climate change and regulatory demands.
- **Employee Turnover Rates:** High turnover can indicate issues with employee satisfaction and engagement, which have long-term implications for productivity and talent management.
- **Diversity and Inclusion:** Metrics on workforce diversity and inclusion initiatives can showcase the company's commitment to social aspects of ESG and positively affect innovation and decision-making.
- **Community Investment:** This includes tracking the impact of corporate social responsibility programs, such as local development projects or donations to social causes.

6. Decision Making

6.1. Integrated Decision Making

The integration of sustainability means that decisions at all levels, from strategic to operational, take into account long-term environmental, social and governance practices in addition to near-term financial impacts. It involves aligning sustainability goals with business objectives, incorporating ESG elements into risk management frameworks, and considering the broader impacts of corporate actions on all stakeholders.

6.2. Strategic Implementation

In practice, integrated decision-making can involve several strategic actions:

Scenario Planning
Employing scenario planning to understand how different future states could affect the business and its stakeholders, incorporating both ESG and financial factors

Cross-Departmental Collaboration
Encouraging collaboration across departments to ensure that sustainability is not siloed within a single department but is considered across all functions

Stakeholder Engagement
Regularly engaging with stakeholders to get diverse perspectives on the company's sustainability initiatives and their potential impacts

Investment Decisions
Applying a sustainability lens to investment decisions, ensuring that capital allocation supports sustainable growth and minimizes ESG risks.

6.3. Integrity and Reporting

Following integrated decision making and strategic implementation, maintaining integrity in sustainability governance and transparent reporting is key to establishing credibility and accountability. Effective governance and thorough reporting methods reflect a company's commitment to sustainability and progress toward ESG goals.

Transparent reporting include publishing regular sustainability reports, complying to standards such as GRI or SASB (outlined in Chapter 1 of Part I of the handbook), combining financial and non-financial data, and conducting third-party audits to ensure credibility. Ethical considerations guarantee that reports are truthful, honest, and represent genuine sustainability initiatives.

Strong sustainability governance and reporting boost reputation, attract socially aware investors, and foster better stakeholder connections. They assist in identifying and mitigating ESG risks, ensuring regulatory compliance, strengthening investor trust, and encouraging employee participation.

7. Corporate governance context in Azerbaijan

The Azerbaijan Corporate Governance Standards were developed by a Task Force with members from Azerbaijani governmental institutions and IFC to improve corporate governance standards in joint stock businesses. Adopted in 2011, these standards are based on the OECD's Corporate Governance Principles, reflecting the international best practice. The provisions of the Standards are not legally binding and are voluntary. he Standards provide suggestions based on ethical principles. It is recommended to use the "comply or explain" philosophy for future standards implementation.

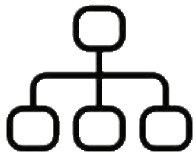
Companies should comply with the Standards, but if they don't, they must explain and report why. Some aspects of the Standards have already been incorporated into Azerbaijani legislation. The legislation merely establishes fundamental governance standards for joint-stock firms and cannot control the peculiarities of each organization.

Furthermore, corporate governance regulation lacks flexibility to adapt to changing circumstances. Companies must adhere to international governance standards that align with their structures, operations, technology processes, and transactional requirements.

The corporate governance framework of Azerbaijan is included in the Civil Code, the Law on Banks, the Law on Insurance Activity, Law on Securities Market, the Law on Accounting, and the Law on Internal Audit. The specific sectoral standards – considering the stricter regulation in the financial sector, the Corporate Governance Standards for Banks and regulations of the Central Bank of Azerbaijan on the external and internal audit and on risk management set out multiple corporate governance requirements which the banks should comply with.

7.1. Overview of Azerbaijani Corporate Governance Landscape

I. Structure and Functioning of the Board



In Azerbaijan, companies with more than fifty shareholders have a two-tier board arrangement, with the CEO not authorized to chair the board.

The Corporate Governance Standards propose that all companies, including insurance firms and those listed on the Baku Stock Exchange's Premium Segment, employ independent directors.

Public interest companies are required to form an audit committee distinct from the board, larger committee recommendations, such as nomination and risk management, are also encouraged. Best practices recommend incorporating outsiders on committees.

It is hard to establish whether there is a common practice of conducting board evaluations or selecting corporate secretary particularly within SME sector.

II. Transparency and Disclosure

Azerbaijan's public interest companies, such as banks and listed firms, are required to follow international financial reporting standards, which the majority of businesses follow.

Joint stock businesses must also create and distribute annual reports, although these frequently lack non-financial information, with little transparency on governance and ownership arrangements.

Although the majority of the country's top corporations publish annual reports, access to critical documents such as Articles of Association and minutes of general shareholders' meetings remains discretionary upon business management decision. Corporate governance standards are voluntary, with no legal requirement to comply.

Non-financial Information Disclosure in Azerbaijan

Existing Recommendations:

- Corporate Governance Standards suggest extensive annual reports (ARs) that include business descriptions, financial analysis, and risk assessments.
- Recommendations urge firms to make ARs openly available on their websites and to show their disclosure procedures.
- The Ministry of Taxation is in charge of maintaining the registry of joint stock corporations. Companies must submit their Articles to the Ministry, which should be publicly available on the registry's website.

Areas for improvement:

- Joint stock companies are required to publish ARs, but there is no duty to include non-financial information, and writing guidelines on how to draft the document is absent.
- There is no obligation for corporations to report compliance with corporate governance standards. The provisions of the Standards are not legally binding and are voluntary.
- There is especially little information available on the qualifications of board and committee members regarding sustainability awareness. Yet, the board should be comprised of competent individuals with adequate experience and qualifications, particularly in the areas of law, finance, audit and accounting.

III. Internal Control

Azerbaijan's rules require internal audit units for banks and insurance firms, as well as external audit bodies for joint stock businesses. Independence guarantee is provided by two main aspects: refraining from providing any other non-audit services to companies and rotation requirement of 3 years.

Whistleblower protection lacks legal underpinning and it is international exposure of the business which drives and urges enterprise to consider its whistleblower policy.

8. Case studies

8.1. Case study 6: "From Shore to Table: A Case Study of Scottish Sea Farms' Materiality Assessment Journey"

Background:

Scottish Sea Farms, founded in 1974 as a joint venture between SalMar ASA and Lerøy Seafood Group, is now a top aquaculture enterprise focused on salmon farming. With over four decades of industry experience, Scottish Sea Farms maintains a number of fish farms throughout Scotland's coastline, carefully positioned to optimize efficiency while maintaining the highest quality and sustainability requirements.

Scottish Sea Farms is dedicated to appropriate aquaculture operations, with a special focus on environmental management, fish welfare, and community participation. They have made major investments in technology and activities targeted at reducing environmental effect while simultaneously protecting the health and wellbeing of their fish populations.

In 2023, Scottish Sea Farms launched on a revolutionary journey with their very first materiality evaluation, based on a foundation of innovation, sustainability, and community participation. This project demonstrates their continued dedication to continual development and paves the way for future advances in sustainable aquaculture methods.

Main challenges:

1. **Identification of Relevant Sustainability themes:** Identifying relevant sustainability themes among a plethora of factors was a substantial barrier. Drawing on current ESG frameworks and industry standards, Scottish Sea Farms addressed this obstacle to identify critical areas for their operations.
2. **Stakeholder Engagement:** Working with a varied stakeholder base was another hurdle. Balancing the viewpoints of consumers, suppliers, shareholders, the media, and internal stakeholders necessitated collaborative efforts to acquire complete insights and opinions.
3. **Integrating Stakeholder Feedback and Business Impact Assessment:** Synthesizing stakeholder comments with business impact assessment results requires careful attention. Aligning stakeholder expectations with practical reality was critical for generating genuine change.

Key initiatives:

- **Methodology Development:** The methodology creation procedure was diligent, tailored to the unique context of Scottish Sea Farms. They secured alignment with industry best practices by relying on a diverse set of existing Environmental, Social, and Governance (ESG) frameworks such as GRI, SASB, MSCI, and UNSDGs.
- **Stakeholder Engagement:** Through interviews and questionnaires, Scottish Sea Farms actively solicited feedback from over 200 stakeholders, guaranteeing a varied variety of opinions. This collaborative strategy improved their awareness of stakeholder expectations and guided their strategic direction.
- **Business Impact Assessment:** They also performed a detailed study to assess the risks and opportunities connected with each sustainability subject. This research gave useful insights into possible operational ramifications and guided decision-making processes.
- **Collaborative Approach:** Collaboration was critical to their success during the evaluation process. Partnering tightly with internal stakeholders guaranteed alignment with strategic goals and operational realities.
- **Materiality Matrix Development:** The result of their work was the creation of a materiality matrix, which is a visual depiction of their most important sustainability concerns. This matrix serves as a guide for developing future sustainability efforts and increasing stakeholder openness.

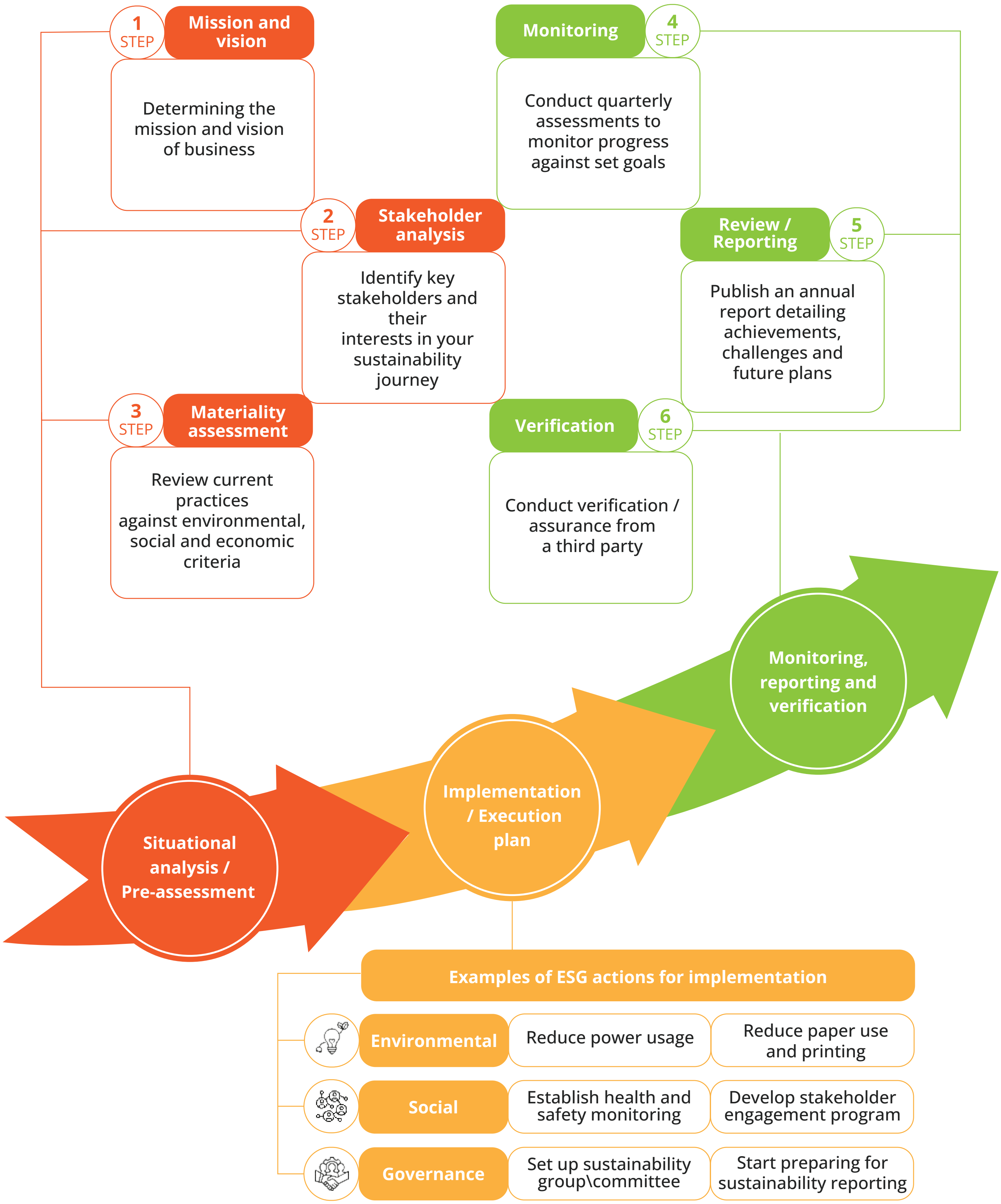
Conclusion:

To summarize, Scottish Sea Farms' initial materiality review in 2023 demonstrates their unwavering dedication to sustainability, innovation, and community participation. They were able to identify and prioritize essential sustainability themes after methodically establishing a customized process, involving a large range of stakeholders, and conducting detailed business impact evaluations.

The collaborative approach and the development of a materiality matrix demonstrate their commitment to integrating strategic goals with operational realities, setting the path for future advances in sustainable aquaculture techniques. This case study demonstrates their proactive approach to solving environmental, social, and governance concerns, resulting in long-term sustainability and stakeholder confidence.

Annex 1:
Stepwise Progress towards Sustainable Business

The sustainability path graph below illustrates a business's journey towards sustainability in three distinct phases, symbolized by an arrow representing progress. The second phase highlights exemplary ESG actions, guiding businesses from initial steps to advanced sustainable practices:



Annex 2:
Alignment with Standards and Frameworks

To successfully navigate this terrain, firms frequently adhere to a variety of standards and pledges that drive their sustainability initiatives. From management systems to global goals and legal requirements, the following section describes major frameworks vital for firms dedicated to sustainable practices:

Management Systems:

- B Corporation Certification
- ISO 14001:2015 Environmental Management Systems
- ISO 50001:2018 Energy Management Systems
- ISO 45001:2018 Occupational Health and Safety
- ISO 26000:2010 Social Responsibility[1]

Reporting Frameworks:

- Global Reporting Initiative (GRI) Standards
- Sustainability Accounting Standards Board (SASB)
- Carbon Disclosure Project (CDP)
- Task Force on Climate-related Financial Disclosures (TCFD)[2]

Global Goals and Commitments:

- United Nations Sustainable Development Goals (SDGs)
- UN Global Compact
- Science Based Targets Initiative (SBTi)
- Paris Agreement

Legislation and Directives:

- **Azerbaijan**

  Sustainable Finance Roadmap by CBAR
- **EU**

  CSRD
- **UK**

  FCA (Financial Conduct Authority)
- **USA**

  Climate-Related Disclosures/ESG Investing by U.S. Securities and Exchange Commission (SEC)

Other:

- Fair Trade Certification
- Rainforest Alliance Certification

[1] ISO 26000:2010 provides guidance rather than requirements, so it cannot be certified to unlike some other well-known ISO standards

[2] Superseded by IFRS S1 and S2

Notes

Notes