

Impact

AZERBAIJAN



SUSTAINABLE DEVELOPMENT IN PRACTICE

- ★ Sustainability as a Core Business Principle – How Leaders Can Adapt
- ★ Sustainable Development in Azerbaijan: Heading Towards a Green Transition
- ★ Circular Economy as the Path to Fair and Sustainable Future



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A Word From Executive Director of AmCham



Dear members,

Welcome to the 39th edition of IMPACT Azerbaijan magazine dedicated to Sustainable development in practice! In our aspiration to support sustainable development in Azerbaijan we became one of the United Nations Global Compact (UNGC) signatories on March 1, 2021. Following Sustainability Policy developed based on the UNGC principles, AmCham Azerbaijan is committed to encourage member companies and local businesses to transform their strategies towards adopting essential values of responsible governance and

their implementation in compliance with sustainability practices around the world.

While working on several initiatives to embrace our commitments, AmCham also continues to promote women's inclusion and economic empowerment through the activities of Chamber's committees. In supporting these goals, we reiterate our belief that women's inclusion will significantly contribute to long-term economic growth and sustainability that will improve livelihoods across Azerbaijan.

One of the significant benchmarks of AmCham was presenting subsequent edition of AmCham's main policy document - White Paper, covering more than 80 recommendations for variety of sectors that is aimed to strengthen Azerbaijan's business environment, and the country as a whole.

To highlight optimal solutions following the turbulent times in the country, Online Annual Tax Conference was organized jointly with the State Tax Service dedicated to "Tax Regulation of the Economy in the Global Pandemic and Post-war Period - Sustainable Economic Growth and a Favorable Investment Climate".

We are proud to have organized 3rd annual AmCham Conference on "Ethics and Compliance in Azerbaijan" that became a great platform for ensuring compliance of businesses in Azerbaijan with relevant laws, regulations, and ethical principles, as well as developing a culture of integrity within the business community of the country was emphasized.

Even more, we continued our efforts on maintaining public-private dialogue and there were organized variety of events with engagement of high-level government officials.

I highly appreciate our members' contribution to IMPACT Azerbaijan magazine. I am sure you will find it interesting and informative!

Wish you the best of success in your businesses!

Best regards,

Gulnara Aslanbayli

Editor's Comment



Dear friends, members of AmCham Azerbaijan

It is my pleasure to welcome you within 39th edition of IMPACT magazine, devoted to Sustainable Development in Practice. In recent years, even with the pandemic situation globally, sustainable development has been one of the major issues touching to different fields. Both public and private sectors have accumulated stock of lessons learned which are in the process of converting into more realistic and tangible outputs. Herein, within this edition, experts of AmCham member companies have touched to different angles of sustainable

development, it's further implementation and perspectives.

Using this opportunity, I would like to appreciate for our advertisers – Nobel Energy, Reisswolf Azerbaijan, IMA-ENERGY and Deloitte Azerbaijan for enabling this issue to get published on time.

Enjoy reading the magazine.

Aykhan

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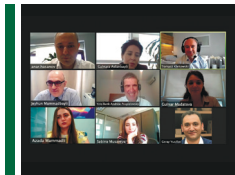
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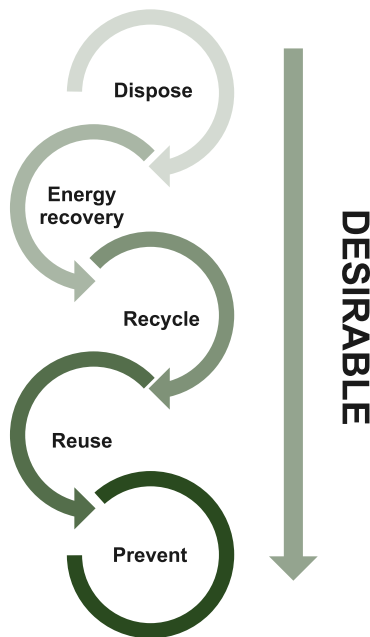
Committee Highlights

Circular Economy as the Path to Fair and Sustainable Future



Ilkin Hajiyev
Founder,
Sustainera Consulting

Compared to the existing linear economy, so-called “take-make-use-waste” model, the circular economy (CE) is viewed as a long-term economic system in which economic growth is disconnected from resource usage through the reduction and recycling of natural resources. The CE idea is gaining traction among **governments, businesses, and individuals** as an essential step toward achieving long-term growth. The recent EU policy (by European Commission), national policies (e.g., CE packages from the United Kingdom, the Netherlands, and Norway), and business sector studies support this. Different ways for transitioning from a linear economy to a CE have been presented. Industrial players are primarily responsible for implementing these tactics. Among the principles that underpin those tactics are (but are not limited to): strategies described within the three-waste R’s hierarchy include sustainable and eco-design, energy and material efficiency measures, and strategies specified within the three-waste R’s hierarchy (reduce-reuse-recycle, sometimes expanded to 11 different R-strategies).



The CE is an important aspect of the sustainability agenda, and it can help achieve several of the UN’s Sustainable Development Goals (SDGs). **SDG 12** - Responsible consumption and production is unambiguously at the core of the CE. **SDG 2** - End hunger (through sustainable food production), **SDG 6** - Clean water, **SDG 7** - Affordable and clean energy, **SDG 13** - Climate action, and **SDG 15** - Life on Land are all targets that a CE may help with. It gets increasingly evident at the sub-target level. Some sub-targets, such as efficient resource usage, redesign, and extended material use, expressly address goals where circular concepts play an immense role.

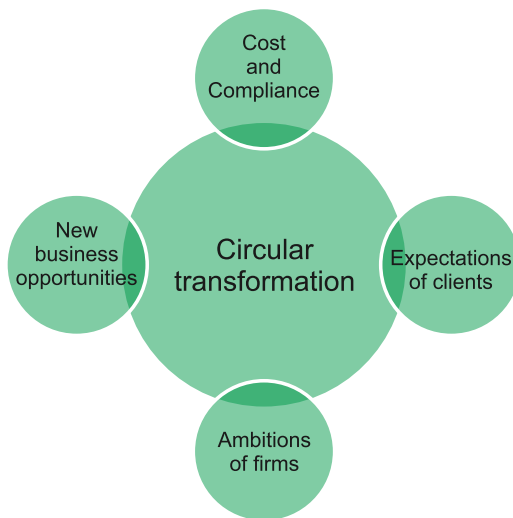
...Regulatory action is acknowledged as one of the key drivers of the CE across the globe

Developed countries across the European Union (EU), America and East Asia are actively involved in implementing regulatory actions towards the enforcement of CE:

- The UK and Scotland – Zero Waste Scotland & The Waste and Resources Action Programme (WRAP) that promotes CE;
- Germany – Sustainable consumption program and CE act;
- Canada – Zero plastic waste strategy;
- Finland – Roadmap by the Government;
- EU – CE package, which includes waste and eco-design directives;
- Japan – Material flow management pioneering.

From **business perspective**, main drivers of sustainable/circular transformation are considered client expectations, cost and compliance, ambitions of firms, and new business opportunities. Herein, cost and compliance mainly include loss of energy and waste, growing costs of sourcing, implementation of new disruptive regulations, imposed taxes and obligations. Expectations from clients entails that they are already informed about the reasons and consequences of climate change, UN SDGs and how corporations must respond to it, and finally scarcity of natural resources. Ambitions of firms bring forward their employees and positive impact, added value in long-term business, as well as expectations of investors. Finally, new business opportunities are driven by customer preferences on green products (as we mentioned that they are more knowledgeable than ever), product and service solutions (particularly digital).

As CE aims to reduce overconsumption, design-out waste and build restorative and regenerative ecosystem and natural capital, new financial instruments and investments



are needed for financing circular business models and innovations at scale. This is where investor expectations arise. Financial institutions, for example, are under pressure from both the public and different shareholders, while new regulations force them to address sustainability problems in their product portfolios. Circularity even encompasses **9R framework**, namely **reduce** (reducing the use of resources for production and consumption), **refuse** (refuse using hazardous materials and chemical compounds, substitution), **redesign** (rethinking of product through elimination of certain resources), **reuse** (make sure that product is durable and can function for long time), **repair** (fixing products to function as before), **refurbish** (restoration to increase the quality), **re-manufacture** (creating product as good as new, upgraded), **re-purpose** (product functioning for multi purposes), and **recycle** (recovery of materials from waste to be processed for production)¹.

Circular design and production models, where investments include research and development (R&D), scaling-up and deployment of new technologies; optimal use of business models, where refurbishment and repurposing are in the focus, have already been implemented in the EU through innovative ideas from both the research community and policymakers. Circular support enablers encourage circular activities that contribute to resource efficiency (e.g., digital tools for predictive maintenance and extension of product lifetime, circularity knowledge dissemination, etc.) in the marketplace.

What global standards require in alignment with CE?

Among the most well-known and impactful standards is the *Global Reporting Initiatives (GRI)*, which enables firms and organizations to measure their progress towards the CE. GRI

1. <https://www.chathamhouse.org/sites/default/files/2021-07/2021-07-16-inclusive-circular-economy-schroder-raes.pdf>

306: Waste 2020 is considered the first globally pertinent reporting standard that sheds a light on the impact of waste along the value chain². Considering that sustainability reporting has gained popularity in recent years, the Standard supports reporting about the waste-related impacts of organizational activities, products and services, and assess waste throughout value chain.

Another globally accepted standard is the *Task Force on Climate-related Financial Disclosures (TCFD)*³, which particularly focuses on climate-related financial information. It acts as an important and transparent leverage linking systemic risk and climate change to corporate decisions and capital market valuations.

*International Standard on Assurance Engagements (ISAE) 3410*⁴ has been particularly devoted to enhancing quality and consistency in reporting on greenhouse gas (GHG) emissions generated from products and services directly (Scope 1) or indirectly (Scope 2 and 3).

CE and Azerbaijan

Azerbaijan has the highest energy productivity among the region's economies. Azerbaijan's CO₂ emission are still below the EU average, indicating that energy efficiency and manufacturing processes could be improved. Heavy industries, which dominate the national economy, must now reduce their environmental imprint⁵. Climate change, which is a result of rising global greenhouse gas emissions (GHGs), is a major source of concern, not least because of the impact of greater temperatures on evaporation and, as a result, the Caspian Sea level, which Azerbaijan has an 850-kilometer shoreline. There are a few strategic policies and development plans that can help with the adoption of CE practices. As a result, "*Azerbaijan 2020: Look into the Future*" incorporates environmental considerations, acknowledges ecological difficulties from oil extraction as one of the primary challenges, and sets a goal "...to achieve sustainable socio-economic growth from an ecological standpoint." One of the five goals for the next decade is "a clean environment and a country



2. <https://www.globalreporting.org/about-gri/news-center/help-for-companies-on-circular-economy-progress/>

3. <https://www.fsb-tcfd.org/>

4. Assurance on a Greenhouse Gas Statement | IFAC (iaasb.org)

5. <https://www.unido.org/news/azerbaijan-unido-focusing-resource-efficiency-and-circular-economy-industrial-sector>



of green growth,” according to the new **“Azerbaijan 2030: National Priorities on Socio-Economic Development.”** It is no coincidence that EU4Environment program aims to create resource efficient and cleaner production (RECP) practices among SMEs through scaling-up. The program also includes raising awareness on CE principles, assess waste resources from production activities, training of national experts, increasing the number of firms applying cost-effective measures for energy, water, and material consumption reduction, and finally building capacities for RECP adoption as part of business strategy⁶.

How Sustainera can help in CE approach at national and corporate levels

Considering Sustainera’s experience in research, advisory and climate services, it aims to be among the pioneering companies promoting CE practices in Azerbaijan through research and trend analysis, strategy development and implementation, and capacity building. Because the company has already been involved in development of long-term low emissions development strategy (LT-LEDS) of Azerbaijan, and understands that because of policy measures, stakeholder pressure, and resource constraint, the sector has had to reconsider its long-term value offer. An entire CE plan must include eco-design, resource efficiency, and waste management.

Our approach covers three steps beginning from awareness to end up with embeddedness, which is achieved through strategy development. In the whole process, we attempt to identify main drivers enhancing circular business (e.g., what additional value can be created, what are the risks, etc.), investigate and apply the most fitting CE model (both in national and corporate levels), and disclose solutions regarding the circular design (e.g., needs for development, costs and risks in the market, etc.). All these processes are supported by comprehensive analysis, stakeholder and resource mapping in value chain, and scenario development regarding CE models.

6. https://azerbaijan.un.org/sites/default/files/2020-12/RECP%20leaflet-Azerbaijan%20final_ENG.pdf

Development of the long-term low emissions development strategy (LT-LEDS) of Azerbaijan

Sustainera Research & Consulting Services provides technical assistance to the inter-ministerial process of developing mid-century LT-LEDS of Azerbaijan, in line with the EU4Climate project goal which is to contribute to climate change mitigation and adaptation and the development towards a low-emissions and climate-resilient economy, in line with the Paris Agreement. The project consists of a number of tasks ultimately resulting in a visionary policy document departing from the current status quo and identifying the most plausible long-term 2050 trajectories and pathways for low emission development and decarbonization of identified and prioritized sectors, taking into account the NDC and sustainable development priorities of government policies and strategies.

The LT-LEDS of Azerbaijan will provide the government with a vision of the mid-century climate policy goals to be achieved on the pathway to carbon neutrality in the second half of this century and it will assist in the environmentally sound long-term planning in the following sectors: Energy, Buildings, Industry, Transport, Waste, Agriculture, Land Use, Land-Use Change and Forestry. The mid-century goals of the LT-LEDS will guide the consecutive NDCs of the country and determine their ambition in line with the no-backsliding rule. The monitoring and evaluation of the NDCs will, on the other hand, inform the LT-LEDS review process and provide information on the progress made towards the achievement of the mid-century goals.

Author’s biography

Mr. Ilkin Hajiyev is Founder of Sustainera Consulting. Ilkin is a professional, specialized in sustainable development and project management. He worked with various UN Agencies, inter alia United Nations Industrial Development Organization’s Office in New York as Sustainable Development Expert, UN Development Programme, UN Office for the Coordination of Humanitarian Affairs, Azerbaijan International Development Agency.

His areas of expertise are project management in international development context, financing for development, South-South and Triangular cooperation, partnership building, resource mobilization and science and technology for sustainable development.

Mr. Hajiyev has graduated from the George Washington University with Master Certificate in Project Management; University of Bristol (UK) with MSc degree in Public Policy; and Baku Slavic University with BA in International Relations degree.