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**ADVANCING TOWARDS
SUSTAINABILITY: CRAFTING
AN ESG FRAMEWORK FOR
AZERBAIJAN'S FUTURE**



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Advancing Towards Sustainability: Crafting an ESG Framework for Azerbaijan's future

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ABSTRACT

It deliberates on a very special environmental, social, and governance (ESG) framework, particularly meant for the country that takes into consideration its peculiar economic and environmental conditions. The object of the project is to develop a country strategy for sustainable development, going from generic ESG models to focus on specific regional challenges and opportunities. This framework designs a methodology for a detailed risk assessment and managing the risk effectively by focusing specifically on Azerbaijan's governance issues within the country's corporate sector. This research will provide a critical review of the current ESG landscape, with strong policy recommendations and a practical step-by-step implementation roadmap. The intention is to make a smooth runway to understand and implement ESG practices, which are theoretically sound as well as practically viable in the context of Azerbaijan. The framework aims to ensure increased economic stability, social welfare, and environmental conservation through the intensification of locally relevant solutions that make a big contribution toward the larger objectives of the nation, which are sustainable and equitable growth.

Keywords: *sustainable development, risk assessment, corporate governance, environmental conservation, economic stability, social welfare.*

JEL code: *Q56*

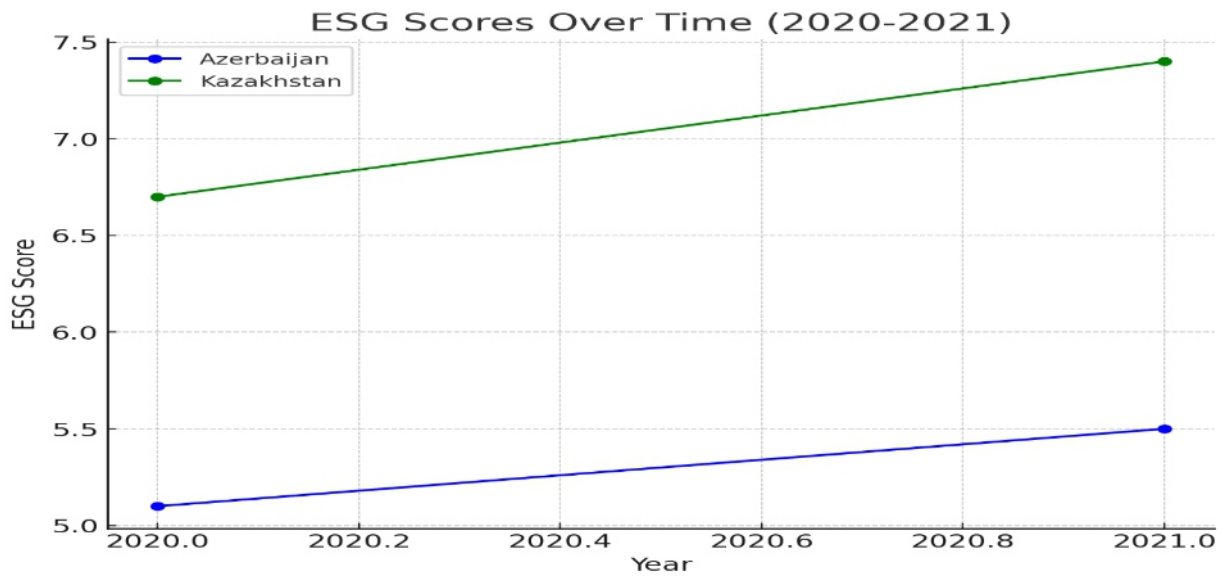
INTRODUCTION

Azerbaijan stands at a pivotal crossroads in aligning its Environmental, Social, and Governance (ESG) practices with global standards. Despite the worldwide surge of sustainable debt and proactive measures against greenwashing, Azerbaijan's ESG integration lags, with only 18% of companies committed to net-zero or carbon-neutral goals, contrasting sharply with the 79% of CEOs optimistic about economic growth (PwC, 2022a). This stark gap highlights the urgent need for a robust ESG framework tailored to Azerbaijan's unique challenges, including health risks and geopolitical conflicts, while meeting international demands for credible ESG disclosures and strict regulations. This paper proposes a customized ESG framework to synchronize Azerbaijan's specific economic and social conditions with global sustainability practices.

ESG LANDSCAPE IN AZERBAIJAN

In Azerbaijan, the ESG landscape is at an essential point of development. 79% of the country's CEOs express high optimism regarding the growth of the global economy over the coming 12 months (PwC, 2022a). However, the latter must still be realized in related optimism within the corporate space. Only 18% of Azerbaijani companies are active or have reached a net zero or carbon-neutral commitment. This apparent gulf between a robust economic outlook and real, on-the-ground ESG commitments unveils a critical fault line in Azerbaijan's development. Focusing, however important, on the priorities of health risks and geopolitical conflicts in the company boardrooms would outshine focusing equally on building a robust ESG assurance and a new standard for ESG disclosures.

**Figure 1. Comparative Analysis of ESG Performance:
Azerbaijan and Kazakhstan (2020-2021)**



The graph is a line graph, "ESG Scores Over Time (2020-2021)," that shows the dynamics of the progress of ESG (Environmental, Social and Governance) information disclosure scores over two years in Azerbaijan and Kazakhstan. Steady progress towards the quality of ESG reporting was observed in Azerbaijan: the average score of the top 50 reports had grown from 4.6 in 2019 to 5.5 in 2021 (PwC, 2022a). Such a good trend shows growth in the Azerbaijani corporate sector with transparency and responsible business practices. Similarly, the ESG reporting trend goes upwards in Kazakhstan, most markedly for the top 10 reports, which rose from an average of 6.7 in 2020 to 7.4 in 2021 (PwC, 2022b). These rising scores reflect a more comprehensive regional focus on higher ESG standards, indicative of a move for the two countries toward more sustainable and ethical business operations.

Most neighbouring countries and others worldwide are increasingly integrating ESG practices into the corporate and government systems. This integration will be a significant commitment to the environmental Sustainability of Kazakhstan since it pledged to become carbon-neutral by 2060 (Auyezova and Sánchez). The financial capital of Astana International Financial Center (AIFC) has been a significant driver in the sustainable finance market, especially issuance. At least 38.6 billion tenge (\$90 million) in green and social bonds had been issued by the end of 2021 (Auyezova and Sánchez, 2022). From corporate transparency to proactively disclosing ESG, the trend of ESG reporting in Kazakh companies is rising. In this movement toward Sustainability with these regional developments, Azerbaijan can find sources of strength and benchmarks. These sources will allow Azerbaijani companies to learn from neighbouring strategies for more efficient and effective integration, hence, the country's raised sustainability profile.

The current scenario in Azerbaijan is the nature of CEO optimism yet subdued ESG action, suggesting the landscape is rife with opportunities. These include a change in corporate mindset, clear goals, and alignment with international sustainability standards to transform into a practical ESG approach. Therefore, the advent of ESG by Azerbaijani companies is not a strategic opportunity; rather, it fulfils the regulatory and ethical needs to raise the level of competitiveness and attractiveness for an investor with the long-term survivability of the business. Of course, the growing global and regional limelight on corporate responsibilities, Sustainability, and transparency through integrating ESG practices within their core business strategies shall also be on it (Daugaard & Ding, 2022). To firm up its economic and environmental imperatives, Azerbaijan can look upon adopting successful models of ESG from regional counterparts but in a manner that suits the financial landscape.

Additionally, continuing the reform efforts, the Republic of Azerbaijan established the Commission on Business Environment and International Rankings through the Presidential Decree (No. 2199) on July 13, 2016. The component of commission government created working group across all the business units as well as ESG implementation and the majority of government and non-government delegation properly execute action based on the roadmap. This commencement shows the state's willingness to support and fully implement ESG standards across the country.

ACTIONABLE ESG RISK ASSESSMENT METHODOLOGY

To directly tackle environmental challenges in Azerbaijan, we propose a phased carbon audit program targeted at major industries, beginning with oil and gas. The program would start with voluntary audits to assess carbon footprints and identify emission sources, transitioning to mandatory audits by 2025 to ensure compliance (Gu, Dai, and Vasarhelyi, 2023). Companies would be assisted with training sessions in the above audits, and significant carbon reducers would further be incentivized with the help of tax incentives or rebates for investment in additional carbon reduction technologies. Along the same line, we also recommend the institution of recycling and waste reduction programs specific to large waste-generating sectors, such as manufacturing and construction. These programs could be the mainstay of making the inclusion of waste reduction plans mandatory in the approval of the construction projects so that their improved operational efficiencies could be encouraged, which will be possible through developing a culture of environmental responsibility from these programs supported by government subsidies and public awareness campaigns. (Ingebretsen, E., 2023). Annual waste management audits would track progress and adjust incentives and regulations as needed.

Comprehensive safety protocols are crucial to bolster worker safety and community relations in Azerbaijan, particularly in hazardous industries like oil, gas, mining, and construction. These protocols will outline mandatory safety standards, emergency procedures, and training enforced by government inspections starting at year-end (Chaudhry et al., 2023). Training will educate workers on safety practices and reporting violations anonymously, ensuring protection and compliance. Also, community advisory panels consist of members from the community, local business leaders, and representatives from the government in major industrial areas like Baku and Sumqayit. These panels would have the facilities for continuous dialogue and addressing concerns in relation to ESG. It would be supported by clear operational guidelines and be ensured through regular public meetings; therefore, in the process, it would foster a culture of respect, safety, and mutual benefit across sectors.

This strategy becomes a double-edged approach for the improvement of corporate governance and enhanced transparency in the country, especially within sectors like oil, gas, and construction. The first proposal involves mandating a transparency scorecard. The larger private entities that deal with matters of a public nature shall be required to disclose their financial dealings, environmental impacts, and social responsibilities annually, complete with measurements conforming to the universally accepted standards for holding each other to account (Chaudhry et al., 2023). It will be voluntary in the beginning and take two years to become a mandatory requirement, alongside regular workshops that will assist companies in their quest to become transparent to the required standards. Secondly, a comprehensive anti-corruption program will enforce clear, strict policies and include training on ethical practices and transparency in partnership with bodies like Transparency International (Doni and Johannsdottir, 2020). An anonymous reporting system managed by a third party will allow safe corruption reporting, with regular audits to ensure compliance and a system of incentives and penalties to maintain high standards of corporate integrity.

POLICY RECOMMENDATIONS FOR ESG INTEGRATION RESULT

In this regard, the appropriate integration of practices in Azerbaijan can only be made possible through cooperation between the government and industry bodies as a required intervention. The government should set a regulatory framework to guide ESG reporting and compliance. Such a framework would be well-served to inform the specific Azerbaijani business context—from the overwhelming centrality of the oil and gas sector to the economy to the nascent focus on net-zero commitments (Yeoh, 2021). Support by industry bodies could be backstopped by fostering an ESG-oriented culture for businesses, providing educational resources, and sharing best practices. Public sector policies will also serve to signal the level of ESG integration. There might be further fiscal incentives, for example, tax rebates or subsidies, for companies that are most exemplary in ESG compliance. Government-led initiatives like public-private partnerships could bring about innovation in sustainable practices. More so, there should be a national ESG committee comprising members from the government, industry, and sustainability professionals, which will ensure dialogue, policy formulation, and monitoring of the ESG integration effort.

Therefore, it is essential to introduce a structured incentive program. The incentives may include covering financial ones, such as tax reductions and grants for firms actively holding out on sustainable operations, and non-financial ones, such as public recognitions and easy access to the market (Walker, 2022). Further, it is in a position to guide the country in setting sector-specific ESG guidelines that may provide businesses in different industrial areas, such as the critical oil and gas sector, a clear pathway for their operations toward sustainability goals. This guidance will involve setting up regulations that ensure transparency and accountability. These, in turn, should dictate disclosure regulations based both on the best international practice and local business realities. Most importantly, the above-stated regulations should be articulated to reward firms for going the extra mile in making the ESG standards, creating a competitive environment that would trigger improved standards.

When implemented, the policies promise vast benefits to diversely considered sectors. In an economic sense, increased foreign investment might flow into Azerbaijan due to better competitiveness within the international market, whereby firms with strong ESG practices will attract more investors. Socially, it will move through stricter development and ESG policy to better labor conditions, move to more significant gender and racial equality at workplaces, and better community relations and thereby can, in a first step, some of the health and social concerns of the CEO be handled (Alsayegh, Abdul Rahman, and Homayoun, 2020). Environmentally, strictly ESG standards would mean better management of the ecological footprint and resources—issues so critical to take heed of in a country like Azerbaijan, from which the use of natural resources derives its highly damaging effects on the environment. Improved governance and transparency might also help reduce corruption, creating excellent stability and predictability for the business environment. All these advantages would accrue to Azerbaijan, which, as a regional leader in Sustainability, would actively partake in the larger global ESG landscape and set a precedent for other emerging economies.

ROADMAP DISCUSSION FOR IMPLEMENTATION

Implementation Plan and Milestones

The successful integration of ESG practices within Azerbaijan's economic framework is contingent upon a carefully orchestrated implementation roadmap (Lexe and Lago, 2023). This implementation is spelled out in Table 1 below: the actions in sequence and timelines between the different stages of ESG framework development. It is straightforward to follow the system by which the decision is adopted through the table from the initial stage of knowledge to complete execution and control. In this framework, the structured plan complements national priorities. It takes forward the capitalization of industries' capabilities to ensure the effective adoption of ESG practices across critical sectors.

Table 1. Phased Implementation Roadmap for Integrating ESG Framework in Azerbaijan

Phase Number	Phase	Duration	Key Actions	Metrics for Success
1	Initiation and Awareness	Six months	Conduct workshops, seminars, and media campaigns.	Level of awareness among stakeholders.
			Facilitated by the Ministry of Ecology and Natural Resources in partnership with industry associations.	Engagement metrics from campaigns.
2	Planning and Development	Up to 1 year	Develop sector-specific ESG guidelines.	Completion of ESG guideline development.
			Create task forces comprising industry experts, government officials, and NGO representatives.	Task force reports on guideline applicability.
3	Implementation and Compliance	Two years	Apply ESG framework across industries.	Number of businesses compliant with ESG standards.
			Set up monitoring systems and compliance training programs	Regular audit results.
			Initiate regular audits.	Functional ESG reporting system.
			Introduce incentives for early and effective adoption.	

Table 1 is a tabular roadmap of who holds the responsibilities and expectations at each stage while implementing the ESG framework. This clarity is vital to ensure the stakeholders' accountability and effective progress monitoring (Lexe and Lago, 2023). Some significant measures of the practical implementation process are sectoral guidelines developed by the business and compliance rates. It will be a phased approach based on the flexibility of the process that will allow iterative improvements. Hence, involved stakeholders will check for emerging challenges and improve the strategies developed. The alignment should exist towards the overarching goals of ESG integration that support sustainable development and regulatory compliance amidst the diversities of the industrial landscape in Azerbaijan.

Resource Allocation and Overcoming Challenges

In Azerbaijan's case, the proposed framework's success will depend upon proper resource allocation and resource management of the risks that might stand in the way. The financial resources should be allocated for program development and deployment of training, establishment of monitoring systems, and incentives for ESG compliance (Khemir, Baccouche, and Ayadi, 2019). This allocation is an area that requires significant human resource investment. It will be necessary to attract and train the relevant staff to monitor and control ESG implementation, including ESG officers and auditors. Another indispensable condition is information resources, like contemporary ESG best practices and technologies for monitoring and reporting. However, challenges are likely to be anticipated through the resistance of those industries already cushioned under the less stringent regulatory environment and the possible short-term economic impact due to the changeover of ESG-compliant practices. This anticipation can be tempered through the phased implementation, which starts from voluntary compliance to mandatory adoption, coupled with solid communication strategies that underline the benefits of adopting ESG for the long term (Khemir, Baccouche, and Ayadi, 2019). Support structures should be laid down to help businesses overcome such challenges and make the changes as smooth as possible.

Emphasizing Collaboration and Continuous Feedback

It calls for partnerships and guarantees regular feedback between government agencies, businesses, NGOs, and community representatives, further strengthening Azerbaijan's successful operationalization of the ESG framework. This strength would be operational by setting up a structured forum allowing regular dialogue and knowledge transfer between key stakeholders (Katsamakos, Miliareisis, and Pavlov, 2022). In such a collective approach, those strategies would be improviseable in real-time, based on collective insights and emergent challenges. Moreover, these mechanisms, such as quarterly review meetings and annual ESG performance audits of the company, have to be institutionalized to keep an eye on the efficacy of this corporate entity. These meetings ensure adherence to the roadmap, where the problems will be addressed and strategies redrawn where needed. In addition, an exclusive online reporting platform should be established whereby all stakeholders can report and give feedback periodically. Stakeholders will be providing feedback and getting guidance. This approach, being open and inclusive, will assure dynamism, responsiveness, and compliance not only with the national but also with the global best practices on the implementation of ESG.

CONCLUSION

This paper portrays the transformative potential of ESG within the Azerbaijani economic framework. It explains the urgent need for a customized ESG framework and gives instances, such as comparing Azerbaijan's ESG progress to that of more developed regions. The paper aims to enhance Azerbaijan's global competitiveness and Sustainability by strategically assessing risk, providing policy recommendations, and giving an implementable roadmap. The most effective way of achieving these high and much-needed dividends in the economy and society of a leading nation like Azerbaijan is through Sustainability. These insights are significant for Azerbaijani businesses and policymakers, and they need to teach and adopt such practices not only at the domestic level but also be encouraged globally.

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**DAVAMLILIĞA DOĞRU İRƏLİLƏYİŞ:
AZƏRBAYCANIN GƏLƏCƏYİ ÜÇÜN ESG ÇƏRÇİVƏSİNİN HAZIRLANMASI**
Ramin ABBASOV

XÜLASƏ

Məqalədə ölkə təcrübəsini qlobal davamlılıq standartlarına uyğunlaşdırmaq üçün Ətraf Mühit, Sosial və İdarəetmə (ESG) çərçivəsinə ehtiyacın olması müzakirə edilir. CEO-lar arasında aparılmış sorğunun nəticəsinə görə, Azərbaycanda iqtisadi artımın olmasına rəğmən çox kiçik sayda biznes subyektlər ESG hədəflərini prioritet götürür. Məqalədə həmçinin ESG-nin inkişaf tendensiyaları ilə bağlı qonşu ölkə Qazaxıstan ilə müqayisə aparılmışdır.

Təklif edilmiş ESG çərçivəsinə aşağıdakılar daxildir:

1. Karbon emissiyalarını qiymətləndirmək və uyğunluğu təmin etmək üçün əsas sənaye sahələri üzrə mərhələli karbon audit proqramının tətbiqi.
2. Tikinti sahəsində məcburi tullantıların azaldılması üçün təkrar emal proqramlarının tətbiqi
3. İşçilərin iş mühitinin təhlükəsizliyi, inkişafı və təmini baxımından ictimaiyyətlə əlaqələrin sıx qurulmasına yönəlik işlərin aparılması.
4. İri özəl qurumlar üçün şəffaflıq göstəricisi olan dəyərləndirmə ballarının məcburiləşdirilməsi və hesabat şəkildə açıqlanmasının təmin edilməsi.

Məqalədə ESG təcrübələrini effektiv şəkildə inteqrasiya etmək üçün hökumət və biznes subyektlərinin qarşılıqlı sıx əməkdaşlığı tövsiyə edilir. Görüləcək tədbirlər paketinə tənzimləyici bazanın yaradılması, tətbiq normalarının hüquqi aspektlərinin müəyyən edilməsi, siyasətin formalaşdırılması və monitorinqi üçün milli ESG komitəsinin yaradılması daxildir.

Həmçinin məqalədə tədbirlər paketinin başlanma və məlumatlılıq, planlaşdırma və inkişaf, icra və uyğunluq mərhələlərini əhatə edən mərhələli icra yol xəritəsi təqdim olunmuşdur. Yol xəritəsi resursların düzgün bölüşdürülməsi, maraqlı tərəflər arasında əməkdaşlıq və davamlı əks əlaqə mexanizmləri uğurlu icra üçün mühüm əhəmiyyət kəsb edir.

Məqalədə Azərbaycanın qlobal rəqabət qabiliyyətinin və davamlılığının artırılmasında ESG-nin transformasiya ediləməsinin vacibliyi vurğulanır. Həmçinin, ESG təcrübələrini yerli və qlobal səviyyədə qəbul etmək və təşviq etmək Azərbaycan biznes mühiti üçün əhəmiyyətli hesab edilir.

Açar sözlər: davamlı inkişaf, risklərin qiymətləndirilməsi, korporativ idarəetmə, ətraf mühitin mühafizəsi, iqtisadi sabitlik, sosial rifah.

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