

ESG Awareness Survey

Azerbaijan
1 July 2024



Introduction



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I am pleased to introduce the findings from the Azerbaijan edition of PwC Eurasia ESG Awareness survey, covering Kazakhstan, Azerbaijan, Mongolia, and Uzbekistan. These tailored reports for each country aim to contribute valuable insights to the global ESG dialogue.

Our survey highlights a significant trend over the past three years: an increasing number of companies in these regions are embracing ESG practices. This shift is driven both by external stakeholder pressures and proactive initiatives within companies themselves. According to our findings, a majority of participating companies have either established robust ESG management systems or are actively integrating environmental and social policies into unified frameworks. Additionally, there is a notable uptick in sustainability reporting efforts, with many companies now publishing dedicated ESG reports or incorporating ESG metrics into their annual reports.

These insights underscore the growing commitment to sustainability across Eurasia and provide a foundation for advancing ESG integration in the region's business landscape.

Despite the progress observed, companies in our survey have identified significant challenges in their ESG endeavors, including limited expertise, financial constraints, and complex legal and regulatory landscapes. To surmount these obstacles and propel their ESG initiatives forward, surveyed companies underscore the critical need for regulatory backing, financial support, technical expertise, and enhanced knowledge in ESG management systems.

I extend my sincere appreciation to all survey participants. The insights shared in this report are poised to serve as essential guidance for businesses, policymakers, and stakeholders committed to advancing sustainable practices and reinforcing corporate governance standards across Eurasia.

Sincerely yours,
Shaukat Tapia

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1

Overview and methodology



Overview and methodology

► What we analyzed

The ESG Awareness in Eurasia survey, prepared by PwC Eurasia, is an important addition to the discussion of Environmental, Social, and Governance (ESG) practices in Eurasia. This survey is a part of PwC Eurasia broader research initiatives aimed at exploring various aspects of ESG topics and their impact on businesses.

With a focus on [Azerbaijan](#), [Kazakhstan](#), [Mongolia](#) and [Uzbekistan](#), these series of reports, tailored for each respective country, endeavor to provide a comprehensive analysis of the level of understanding and implementation of ESG principles among the largest companies in the region. The corresponding reports can be accessed via the links provided above.

The current report is dedicated to Azerbaijan, with the research results presented within this report encompassing the following key sections:

- Current ESG trends in Azerbaijan
- Organizational progress in ESG
- Organizational implementation of ESG
- ESG reporting and strategy trends

► How we analyzed

The research was conducted between November 2023 and January 2024 by utilizing an online survey format to collect data from the most influential companies across Azerbaijan, Kazakhstan, Mongolia, and Uzbekistan. The selection of these companies was based on their market capitalization, revenue, and overall size of the company within their respective industries.

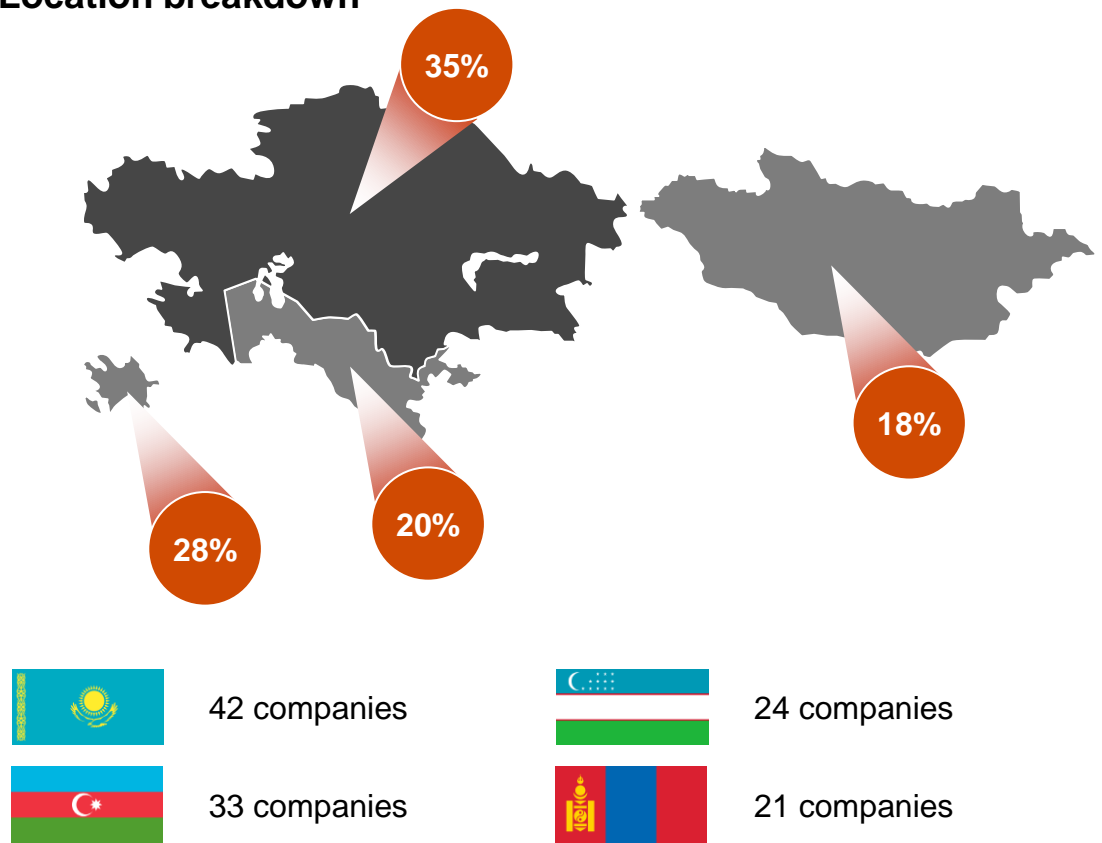
Companies were approached through two distinct methods: firstly, PwC compiled a list of companies meeting the selection criteria and directly sent the survey to them. Secondly, in Azerbaijan, Kazakhstan and Uzbekistan, we collaborated with The American Chamber of Commerce (AmCham) in each of the above countries to extend the survey to their member companies, thereby enhancing the breadth and depth of our data collection efforts. We express our sincere gratitude to AmCham for their valuable contribution to this endeavor, which significantly enriched the scope and relevance of our survey findings.

By employing this method, the study collected insights into the current state of ESG agenda from the 118 largest companies across 4 territories mentioned above. The study analyzed data for 2023.

Brief overview of survey participants

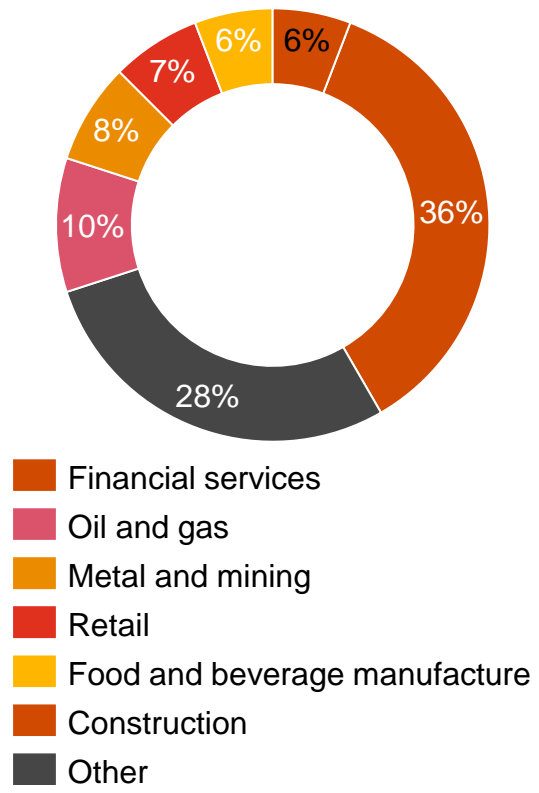
The survey included a diverse pool of respondents, totaling 118 companies across Azerbaijan, Kazakhstan, Mongolia, and Uzbekistan. Kazakhstan had the highest representation with 42 companies, followed by Azerbaijan with 33 companies, Mongolia with 21 companies, and Uzbekistan with 24 companies.

Location breakdown

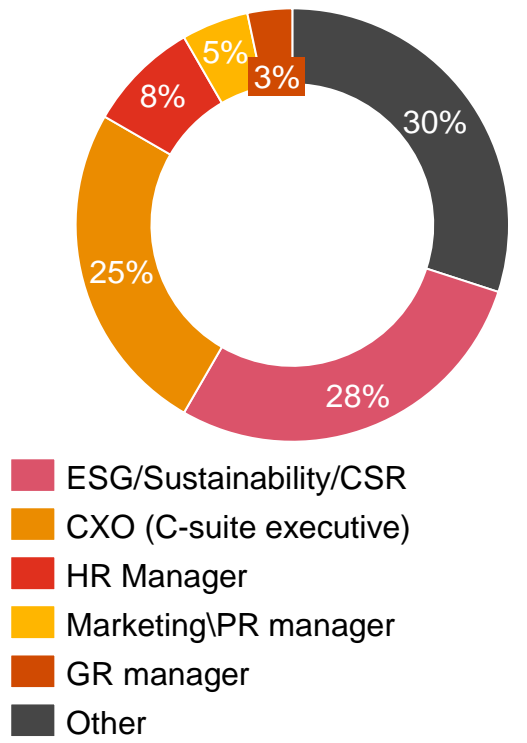


These companies spanned across more than 10 industries, with notable representation from sectors such as financial services, oil and gas, metal and mining, retail, and construction.

Industry classification



Role of participant



2

ESG Agenda in Azerbaijan



Comprehensive regulatory developments in Azerbaijan, coupled with significant investments, are expected to bring improvements in sustainability across industries

Major Environmental challenges

1 Air and water pollution	2 Hazardous waste
3 Threats to biological diversity	4 Forest destruction
5 Soil degradation and erosion due to agricultural overuse	

Key strategic areas include:



Steadily growing, competitive economy



Dynamic, inclusive society based on social justice



Areas of modern innovations and competitive human capital



The great return to the territories liberated from occupation



Clean environment and country of green growth

Strategy on Environmental issues

Azerbaijan is committed to achieving the **Sustainable Development Goals (SDGs)** outlined by the United Nations General Assembly (UNGA) by 2030, with a particular focus on SDGs 6 (Clean Water and Sanitation), 7 (Affordable and Clean Energy), 12 (Responsible Consumption and Production), 13 (Climate Action), and 15 (Life on Land) covering social and environmental aspects of sustainable development.

Azerbaijan actively participates in the implementation of the **United Nations Framework Convention on Climate Change (UNFCCC)**, the **Kyoto Protocol** and the **Paris Agreement**.

Country updated its **Nationally Determined Contributions** document in accordance with the Paris Agreement with the aim of reducing its greenhouse gas emissions by 40% compared to 1990 levels by 2050, taking into account the maximum possible absorption capacity of forests and ecosystems.

Azerbaijan in collaboration with the United Nations office for Disaster Risk Reduction (UNDRR, formerly UNISDR) aims to implement the Sendai Framework in Azerbaijan.



Legislations and regulations

- The Law of the Azerbaijan Republic on the Use of Energy Resources was approved in May 1996;
- The Law of the Republic of Azerbaijan on Environmental Protection approved in 1999;
- The Law of the Republic of Azerbaijan on Ecological Security approved in 1999;
- National Strategy of the Republic of Azerbaijan on Conservation and Sustainable Use of Biodiversity for 2017-2020 (NBSAP) was published in October 2016;
- The Law on Environmental Impact Assessment dated 12 June 2018;
- The Order of the President on the Acceleration of Reforms in the Energy Sector was adopted in May 2019;
- “Azerbaijan 2030: National Priorities for Socio-Economic Development” was approved by the Order of the President of the Republic of Azerbaijan in February 2021;
- The Law on the Use of Renewable Energy Sources in Electricity Generation in July 2021;
- The Law on Alternative Use of Energy Resources and Energy Efficiency in August 2021;
- “2022-2026 Social and Economic Development Strategy”;
- “Environmental issues” working group was created;
- “The Action Plan on the establishment of a green energy zone in the liberated territories of the Republic of Azerbaijan for 2022-2026” were approved on 21 June 2022.

Comprehensive regulatory developments in Azerbaijan, coupled with significant investments, are expected to bring improvements in sustainability across industries

Major Social challenges

1 Gender inequality	2 Economic inequality
3 Decline of freedom of expression	4 Lack of Inclusivity
5 Internally displaced people and refugees	

Key strategic areas include:



Steadily growing, competitive economy



Dynamic, inclusive society based on social justice



Areas of modern innovations and competitive human capital



The great return to the territories liberated from occupation



Effective social protection and health systems

Strategy on Social issues

Azerbaijan is committed to achieving the **Sustainable Development Goals (SDGs)** outlined by the United Nations General Assembly (UNGA) by 2030, with a particular focus on SDGs 1 (No Poverty), 2 (Zero Hunger), 3 (Good Health and Well-being), 4 (Quality Education), 5 (Gender Equality), 8 (Decent Work and Economic Growth) covering social aspects of sustainable development.

Over the past two decades, Azerbaijan has progressively increased its expenditure on financing education, health, social protection, and social security as a percentage of the total state budget expenditures.

New legislations are being introduced with the aim of guaranteeing the seamless and efficient functioning of public medical and educational institutions.

The government has implemented poverty alleviation programs aimed at reducing the prevalence of poverty and improving living standards. These programs include social assistance schemes, job creation initiatives, and support for micro-enterprises to empower individuals and families economically.

Azerbaijan has implemented strategies to address the needs of internally displaced people and refugees. These include housing and shelter, social support, integration and resettlement.



Legislations and regulations

- The “Azerbaijan 2030: National Priorities for Socio-Economic Development” was approved by the Order of the President of the Republic of Azerbaijan in February 2021;
- “2022-2026 Social and Economic Development Strategy”;
- “2019-2030 Employment Strategy of the Republic of Azerbaijan” was approved by the Decree of the President of the Republic of Azerbaijan on 30 October, 2018
- “2020-2025 Action Plan for the Implementation of the Employment Strategy” was approved by the Decree No. 1816 of the President of the Republic of Azerbaijan dated 13 February, 2020;
- “One-Stop Shop” principle for the management of migration processes, in accordance with the Decree of the President of the Republic of Azerbaijan dated 4 March, 2009
- “State Program for the Education of Youth at Prestigious Universities of Foreign Countries for 2022-2026”

Comprehensive regulatory developments in Azerbaijan, coupled with significant investments, are expected to bring improvements in sustainability across industries

Major Governance Challenges

- 1 Dependency on energy revenues
- 2 High Inactivity rate
- 3 Corruption
- 4 Lack of transparency
- 5 Labour's high concentration in agriculture and the informal sector

Key strategic areas include:

-  Steadily growing, competitive economy
-  Dynamic, inclusive society based on social justice
-  Areas of modern innovations and competitive human capital
-  The great return to the territories liberated from occupation
-  Effective social protection and health systems

Strategy on Governance issues

Azerbaijan is committed to achieving the **Sustainable Development Goals (SDGs)** outlined by the United Nations General Assembly (UNGA) by 2030, with a particular focus on SDGs 8 (Decent Work and Economic Growth), 9 (Industry, Innovation and Infrastructure), 11 (Sustainable Cities and Communities), 16 (Peace, Justice and Strong Institutions), 17 (Partnerships for the Goals), covering governance aspects of sustainable development.

Azerbaijan has undertaken administrative reforms aimed at enhancing the efficiency, transparency, and accountability of government institutions.

The government has implemented anti-corruption measures to combat corruption at all levels of government and society. Azerbaijan has invested in e-government initiatives to digitalize government services and improve access to information and public services for citizens.

Efforts have been made to decentralize governance and empower local authorities to address local needs and priorities effectively.

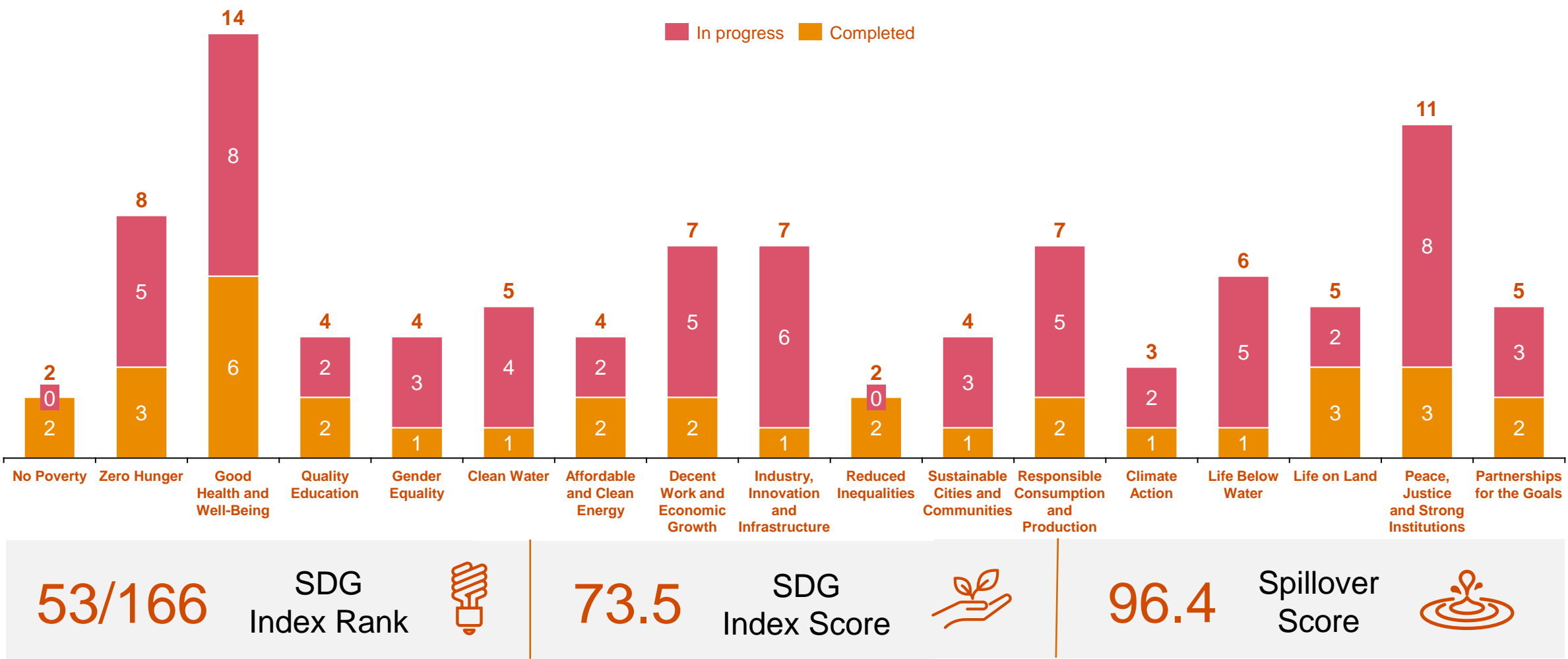
Azerbaijan has emphasized transparency and open government principles to foster public trust and engagement in governance processes.



Legislations and regulations

- "State Program for the Protection of Human Rights" approved by the decree of the President of the Republic of Azerbaijan dated June 18, 1998
- The "Azerbaijan 2030: National Priorities for Socio-Economic Development" was approved by the Order of the President of the Republic of Azerbaijan in February 2021;
- The "2022-2026 Social and Economic Development Strategy";
- In February 2023, the Central Bank of Azerbaijan (CBAR) approved its first Sustainable Finance Roadmap 2023–2026,
- The Competition Code that is accepted in 11th September, 2023;
- "Azerbaijani Corporate Governance Standards" approved by the Decree of the Minister of Economic Development of Azerbaijan Republic dated January 28 2011;

As per Sustainable Development Goals Report Azerbaijan already reached 35 out of 98 Goals, mainly focused on Well-Being, Life of Land, Peace, Zero Hunger, etc



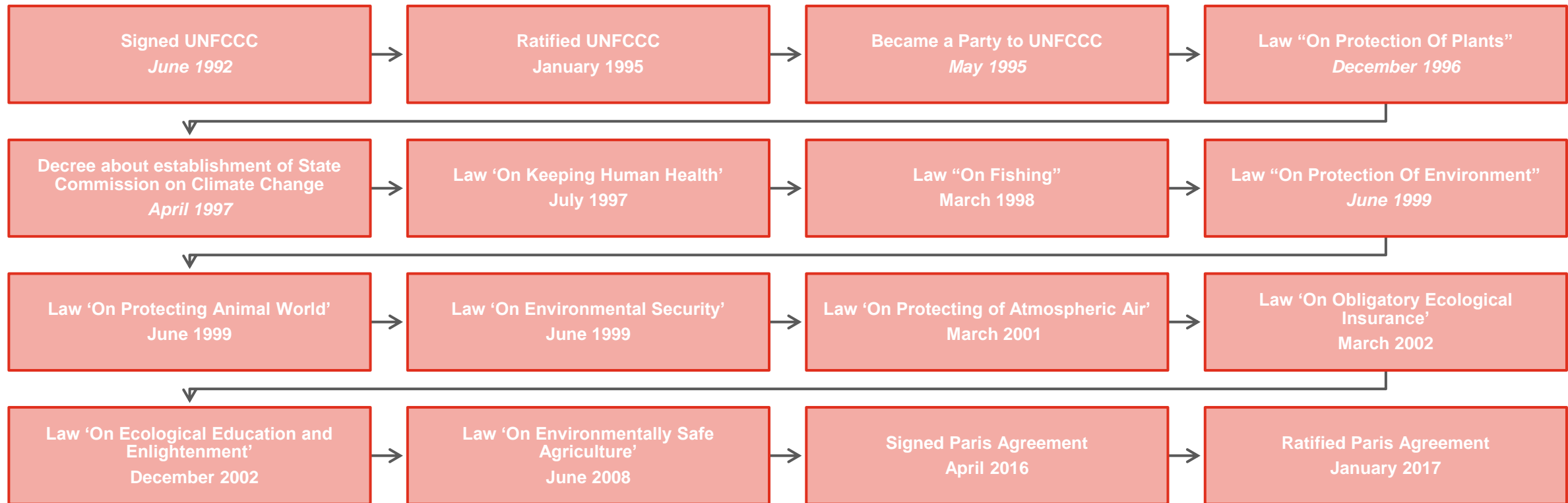
Source: Sustainable Development Goals Global Report 2023

ESG Awareness Survey: Azerbaijan

Azerbaijan has invested in drafting a legal framework focusing on climate change adaptation, which will support addressing climate-related challenges



In Azerbaijan, the legal framework for implementing sustainable development began to take shape in the late 1990s. More than 20 national laws on different aspects of sustainable development were officially adopted.



CBAR endorsed Sustainable Finance Roadmap for 2023-2026, prioritizing Climate Resilience, Environmental Conservation, and Social Governance Integration



The Central Bank of the Republic of Azerbaijan (CBAR) approved the Sustainable Finance Roadmap for 2023-2026 on 15 February 2023 to transform the financial sector into sustainable finance.



Key objectives:

Ensuring market transparency and discipline

Introduction of standards, principles, and regulatory changes

Raising awareness and capacity building

Gradually embedding in stress testing

Preventing greenwashing

Integrating into risk management and supervision

Monitoring and assessment of material risks

Introduction of sustainable finance instruments

Source: The Central Bank of the Republic of Azerbaijan

ESG Awareness Survey: Azerbaijan

July 2024

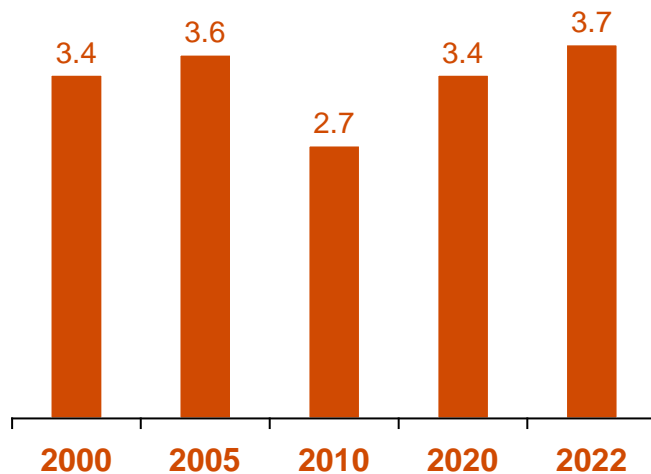
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Azerbaijan's Role in Global Climate Initiatives and Hosting COP29

Renewable energy



CO₂ emissions (metric tons per capita)



According to the most recent World Bank data, in 2022 Azerbaijan's CO₂ emissions were amounted to 3.7 metric tons per capita.

Source: World Bank (2024); EU4Climate; CGIAR and Global Carbon Budget



“Clean Environment and Green Growth Country” Strategy

40%

GHG emissions reduction by 2050

30%

Share of renewable energy of total electricity generation by 2030

2024

has been declared the "Green World Solidarity Year."



COP29

Azerbaijan will host 2024 UN Climate Change Conference of the Parties of the UNFCCC in November 2024

COP29 will focus on advancing the goals of the UNFCCC and the Paris Agreement, including efforts to limit global warming, adapt to the impacts of climate change, and mobilize financing for these activities

Azerbaijan has also been signed up to The Global Methane Pledge, an important voluntary commitment by nation states to reduce their emissions of methane

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Detailed overview of the survey results

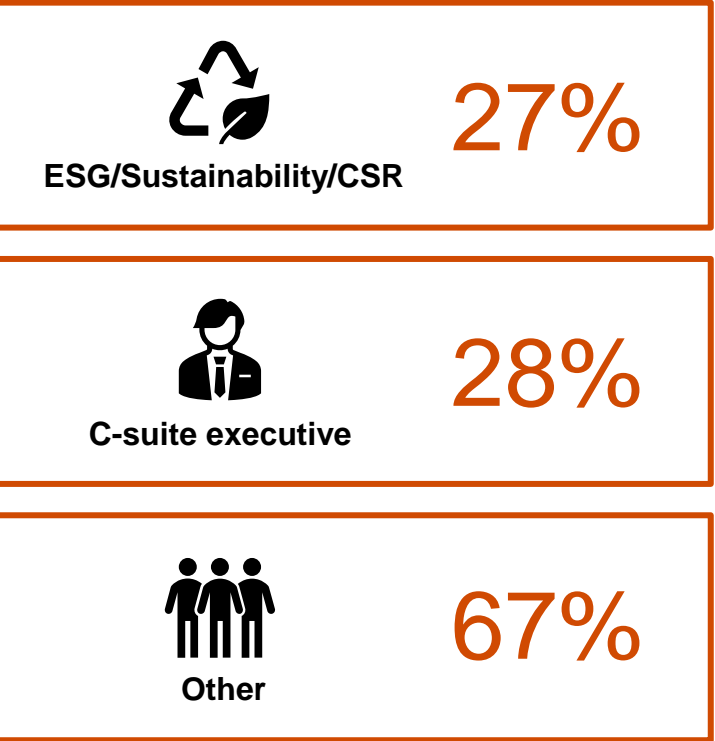


Azerbaijani respondents profile

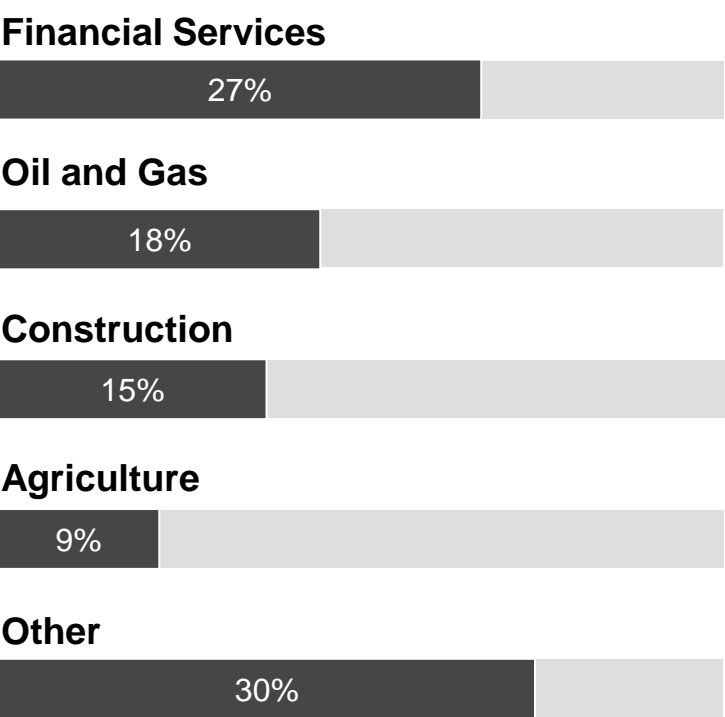
A total of 33 companies participated in the survey from Azerbaijan, with a significant majority (66%) representing large enterprises with 250+ employees. Notably, the survey included participation from 4 multinational companies, reflecting their global presence.

Additionally, 7 companies headquartered in Azerbaijan were found to operate across multiple territories, further highlighting their expansive reach and influence. The main industries represented among the respondents are financial services, oil and gas, and construction.

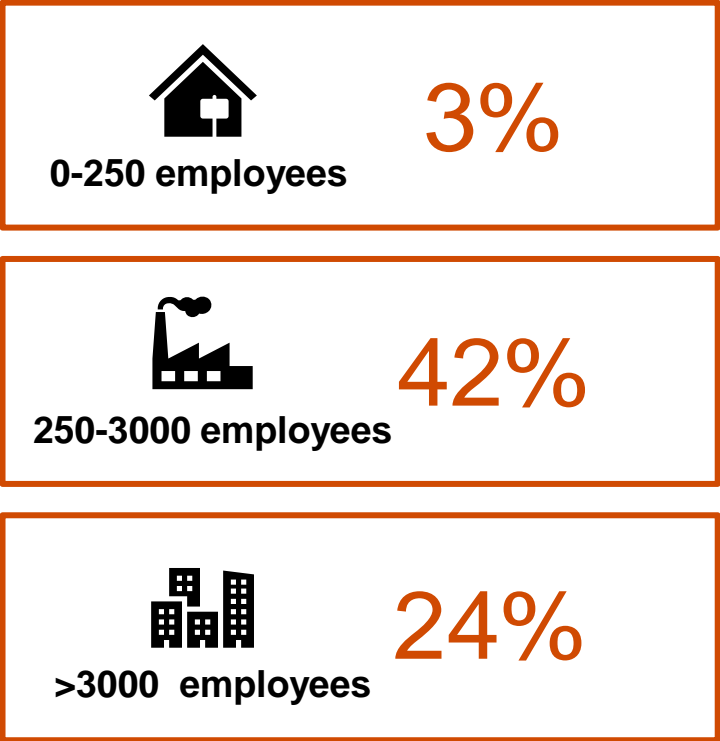
Role of participant



Industry classification

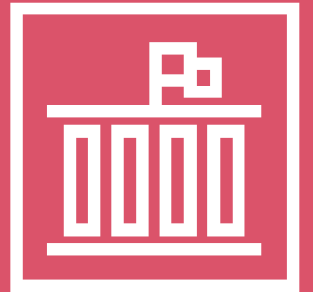


Company size, number of employees



3.1

ESG implementation trends



1. Understanding business familiarity with ESG

How familiar are companies with ESG/sustainability?



The discussion on survey results regarding companies' familiarity with ESG shows that awareness varies a lot among countries. While a notable portion of companies demonstrates a good understanding of global and country-specific sustainability trends and how they affect their industries and businesses, a considerable proportion still lacks comprehensive knowledge.

In Azerbaijan and Kazakhstan, the majority of surveyed companies demonstrate a strong understanding of ESG trends and their organizational impact. However, in Mongolia and Uzbekistan, more than half of the surveyed companies display only a basic understanding of key ESG trends, lacking insight into their industry's future implications.

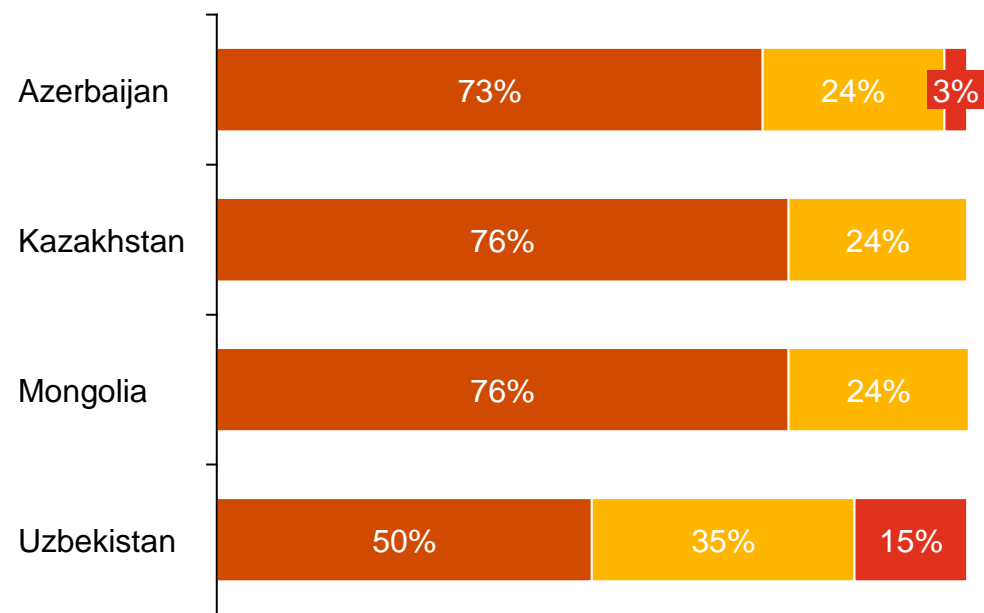
Our survey highlights the growing awareness of ESG concepts among Azerbaijani companies, driven by the country's efforts in sustainability strategy development over the past decade. Government initiatives, including preparations for hosting COP29, have played a significant role in integrating sustainability into the national agenda. These efforts have fostered adoption of ESG principles across businesses and industries in Azerbaijan. This trend reflects the country's commitment to aligning with global sustainability standards and enhancing its competitive edge in the international market.

2. ESG impact on national economies: Assessing relevance

Do companies think that the ESG agenda will be relevant for the country in the next three years?

Level of impact ESG agenda is expected to have on the country

Significant Moderate No impact



Comments

As ESG considerations continue to gain prominence globally, their impact on economies and businesses has become increasingly apparent. In this context, examining companies' perceptions of the relevance of the ESG agenda for their country over the next three years provides valuable insights.

Companies in Azerbaijan, Kazakhstan, and Mongolia share a similar perception, with over 70% of them anticipating a significant impact from the ESG agenda on their economies, industries, and businesses. About 20% foresee a moderate impact, indicating a need for some adjustments in response to ESG agenda but not significant changes to the regular company activities. This acknowledgment is driving companies to integrate ESG considerations into their long-term strategic planning, reflecting their commitment to sustainability.

However, survey results from Uzbekistan reveal a different perspective, with 50% anticipating a significant impact, 35% foreseeing a moderate impact, and 15% believing that the ESG agenda will not lead to real changes in the economy or their business in the next three years, suggesting it can be ignored for the near future. This skepticism regarding ESG may reflect the novelty of ESG-related regulations, thus, limited understanding of the core ESG principles, indicating a need for enhanced awareness.

3. Exploring the influence of ESG trends on business

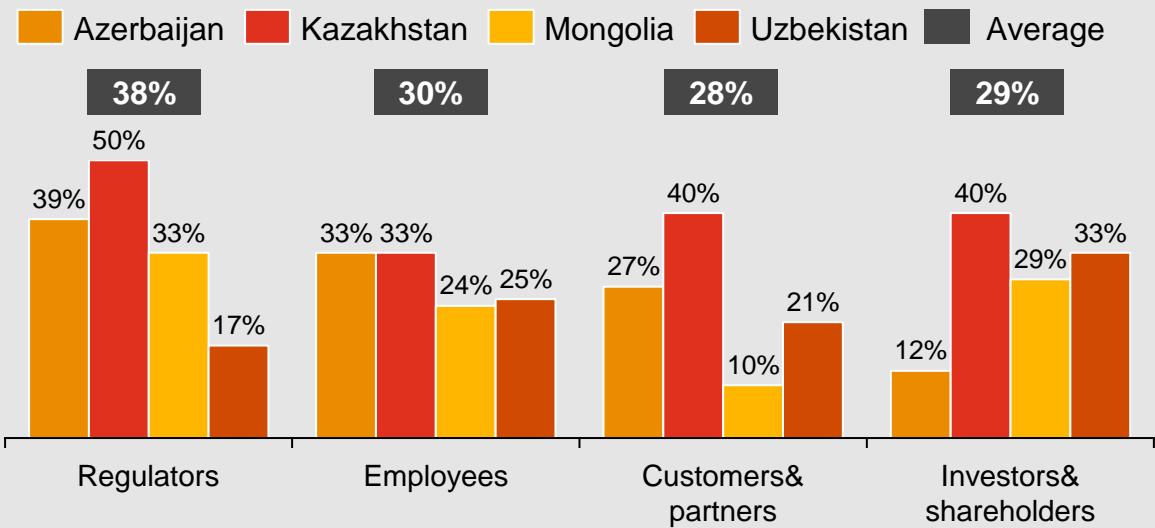
Do companies feel the growing influence of ESG trends on their activities?

As more companies recognize the growing impact of ESG trends on their business activities, this section aims to explore factors shaping their perceptions of the ESG agenda.

Approx. half of the companies in Azerbaijan, Kazakhstan, and Mongolia express increasing exposure to ESG risks, compared to only 29% of companies in Uzbekistan. When it comes to external pressures, the survey highlights significant differences among the surveyed countries, with regulatory requirements being the primary factor, followed by pressure from employees, business customers and partners, investors, and shareholders.

45%	AZ companies see the company's growing exposure to ESG risks (incl. Climate change risks) KZ: 60%, MN: 52%, UZ: 29%
33%	AZ companies say that they implement ESG agenda as their voluntary contribution KZ: 24%, MN: 29%, UZ: 42%
0%	AZ companies say that they still don't plan to implement ESG agenda KZ: 0%, MN: 6%, UZ: 8%

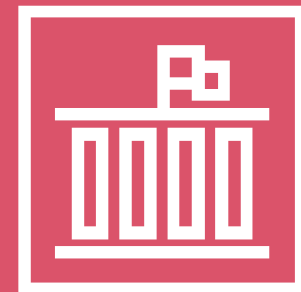
Stakeholder groups promoting ESG agenda



Survey result on stakeholder groups highlight the multifaceted nature of ESG promotion in Azerbaijan, with various stakeholder groups playing crucial roles in driving the agenda forward. The combined efforts of regulators, employees, customers & partners, and investors & stakeholders are essential for fostering a comprehensive and effective ESG framework in the country.

3.2

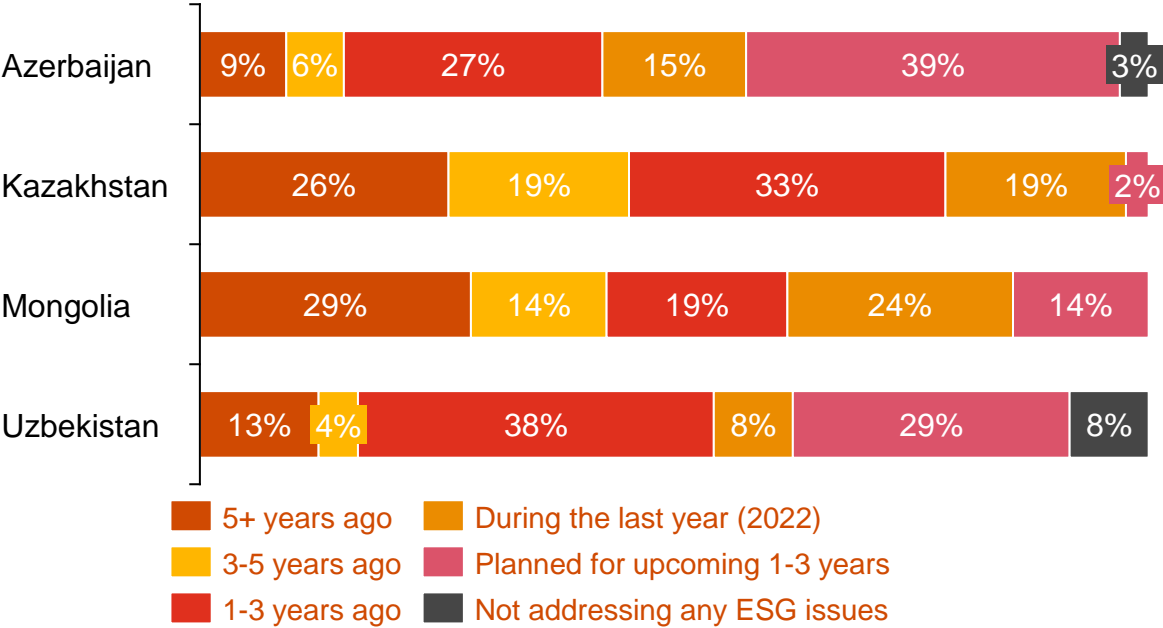
Organizational progress in ESG



4. ESG adoption

When did companies start ESG?

% of companies that started ESG activities in a particular period



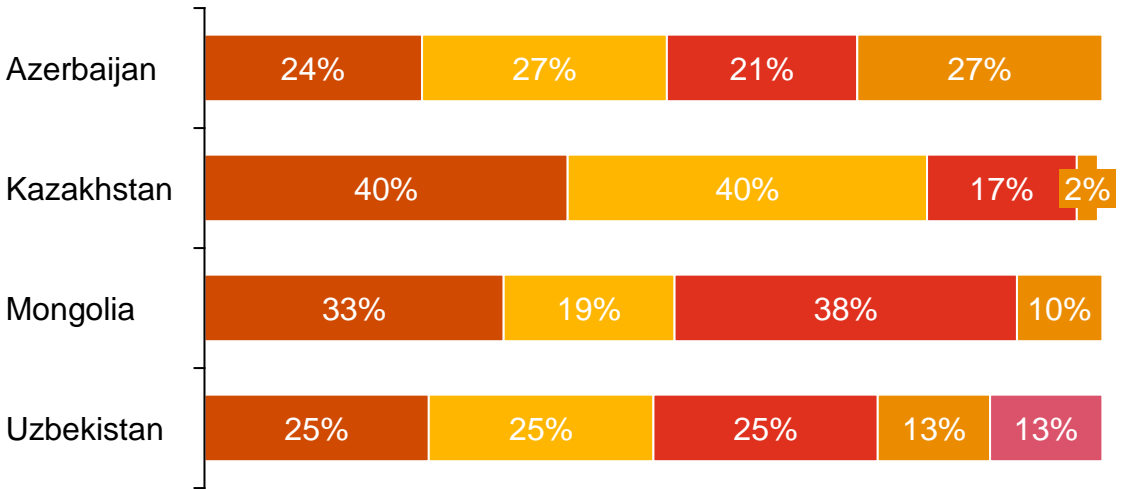
The timeline of ESG adoption among companies provides a significant perspective into the evolution of sustainability practices within the business landscape. Understanding when companies began their ESG activities offers insights into the pace of sustainability integration and the shifting priorities of businesses over time.

The majority of companies in Azerbaijan, Uzbekistan, and Mongolia embarked on their ESG activities within the past one to three years, indicating a more recent incorporation of sustainability into their business operations, which time-wise corresponds to more active regulatory developments and spread of ESG agenda on the national level. 15% of companies in Azerbaijan embarked on ESG initiatives over three years ago, indicating a relatively early adoption of sustainable practices.

Notably, early adopters in Azerbaijan and Kazakhstan hailed from industries such as metals and mining, oil and gas, energy, and food and beverage production, while the financial services industry led the adoption of ESG practices in Uzbekistan and Mongolia.

5. ESG Management Practices

What is organization progress in managing ESG issues?



- A well established ESG management system with policies, procedures and systems
- A number of separate, not linked into a system, environmental and social policies
- Early stage of policies and procedures development
- Not addressing ESG, researching the topic
- Not planning to address ESG

As we see, companies are increasingly integrating ESG considerations into their operations. However, the organizational progress in addressing and managing ESG issues varies across the countries.

In Azerbaijan, Uzbekistan and Mongolia approximately 50% of companies surveyed have made progress in ESG management, such as establishing a well-defined ESG management system or are actively implementing various environmental and social policies. In contrast, 48% of surveyed companies have not made any progress or at early stage of policy & procedure development.

In Azerbaijan, only 24% of companies have a well-established ESG management system. Despite this, Azerbaijani companies strive to not only fulfill stakeholder and legal requirements but also to set the standard for ESG practices in their sectors by encouraging cooperation and knowledge exchange. A prime example is that Azerbaijan has been chosen to preside over the 29th Conference of the Parties (COP29), which will take place in Baku in November of this year.

6. ESG initiatives development and management

Who is primarily responsible for overseeing and development of ESG initiatives across the firm?

	AZ	KZ	MN	UZ	Eurasia
Leadership (Board)	55%	52%	33%	13%	42%
Leadership (Management)	64%	69%	57%	46%	61%
HR Manager	9%	24%	19%	17%	18%
CSR Manager	9%	21%	24%	8%	16%
Environmental manager	33%	24%	24%	13%	24%
Marketing/PR manager	12%	21%	14%	8%	15%
ESG committee	3%	29%	19%	8%	16%
ESG focused project management officer	6%	10%	10%	13%	9%
Sustainability department	12%	31%	19%	17%	21%
Designated ESG employee	9%	24%	29%	25%	21%
External consultants	9%	14%	5%	21%	13%
No one. We are preparing an existing employee or hiring someone to fill this role	9%		5%	17%	7%

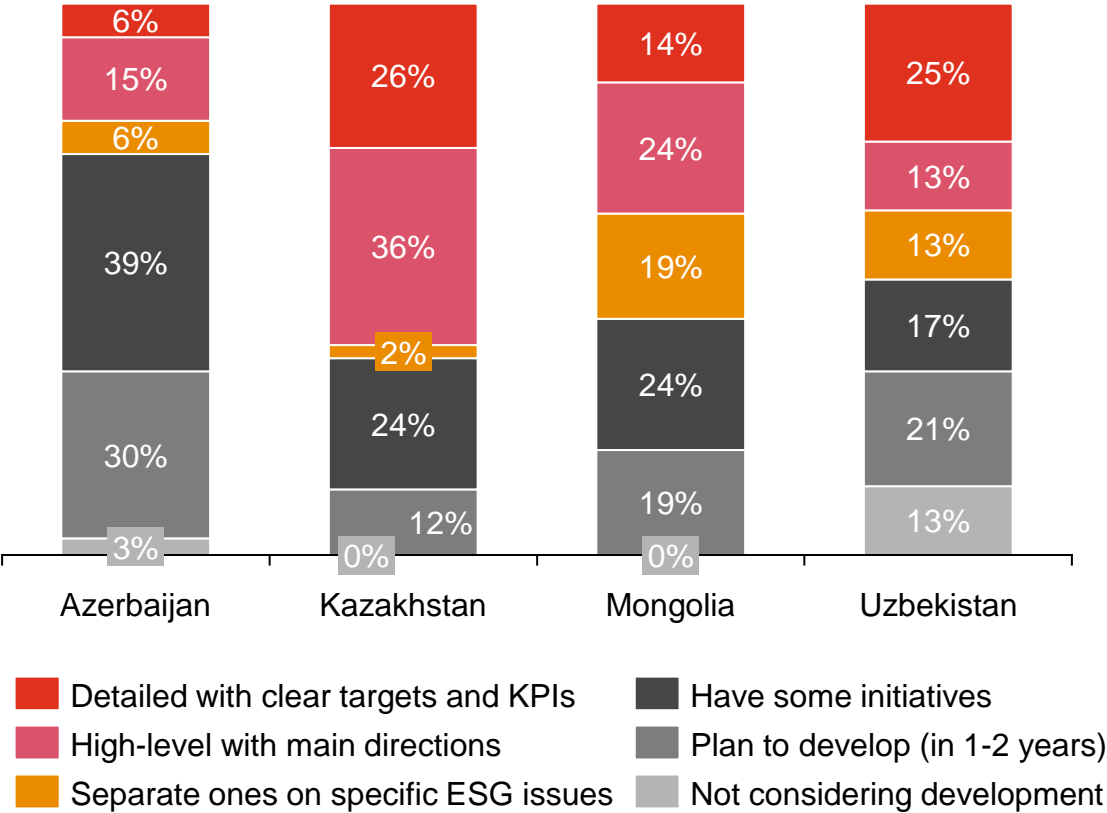
The implementation of ESG management systems or separate environmental and social policies highlights the necessity of having someone, either a designated individual or department, accountable for overseeing and driving these initiatives.

Our survey reveals that in most cases, this responsibility falls on leadership, including the Board of Directors and management. Such a heavy leadership involvement in ESG stewardship indicates that sustainability considerations are integrated into the company's strategic planning and decision-making processes, reflecting a commitment to long-term vision and objectives.

However, the survey also indicates that fewer companies have separate ESG bodies, such as committees, departments, or dedicated employees, which is considered the best practice among global leaders. Without such structures, lack of focused expertise, resources and oversight can potentially result in inconsistent practices and goals across different areas of the business.

7. ESG Strategy

Do companies have an approved ESG strategy?



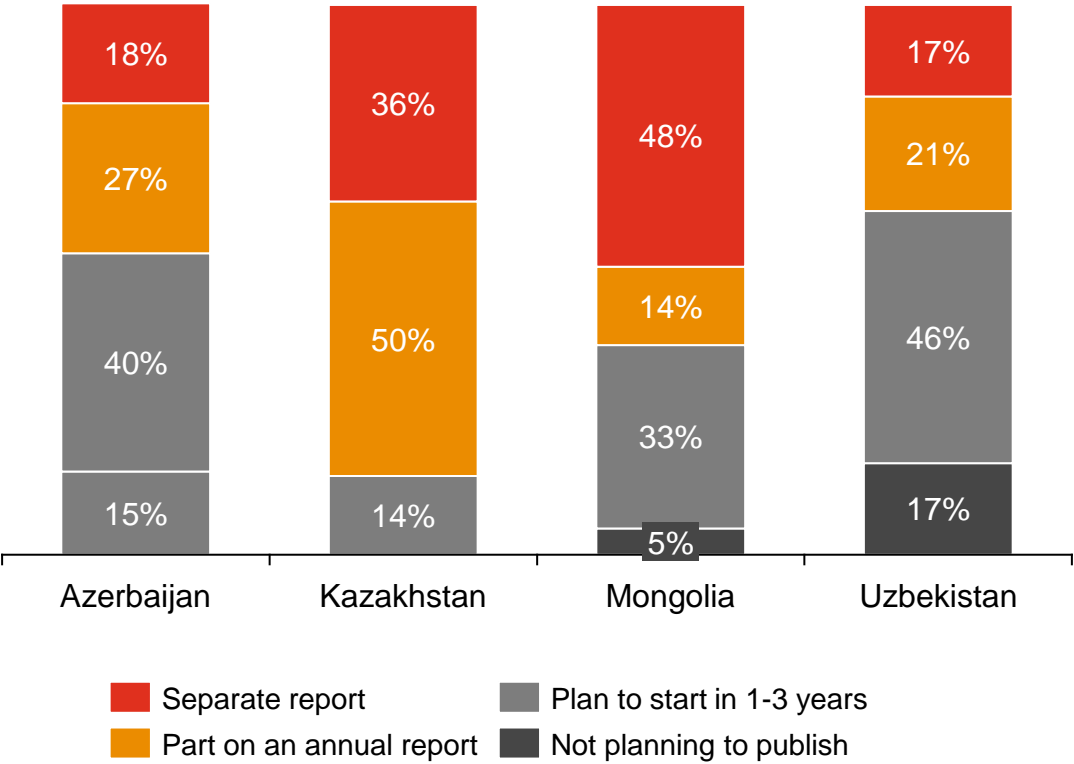
As companies advance in ESG implementation, the importance of having an approved ESG strategy has become indispensable for organizational success. An established ESG strategy indicates a company's maturity in recognizing the importance of sustainable practices and its commitment to integrating these principles deeply within its business operations and decision-making processes.

According to the study results, more than half of the enterprises in Kazakhstan, Uzbekistan, and Mongolia have adopted ESG strategies. These strategies take several forms, ranging from comprehensive plans with well-defined objectives and key performance indicators (KPIs) to distinct methods that target certain ESG challenges. However, in Azerbaijan only 27% of companies have reported having ESG strategies in place (6% with detailed target and KPIs, 15% with high-level directions and 6% with specific ESG issues), while remaining share either have plans in the future or not considering development.

It is worth noting that the presence of a strategy does not correlate with the industry of operation.

8. ESG Reporting

Do companies publish an external ESG/CSR/Sustainability report or a designated section in an annual reports?



As companies increasingly consider ESG (Environmental, Social, and Governance) factors, the need for clear and honest reporting has become more important.

In Azerbaijan, only 45% of companies currently produce any form of ESG reports or include ESG sections in their annual reports. The rest of the companies plan to start within the next 1-3 years (39%) or not planning at all (15%). Similarly, Uzbekistan also has a low rate of ESG reporting at 40%.

On the other hand, over 60% of companies in Kazakhstan and Mongolia are already engaged in ESG reporting. This higher rate is likely due to specific regulations that require companies to provide detailed ESG information.

The largest group of respondents are planning to begin ESG reporting within the next 1-3 years. The trend suggests a growing recognition of the importance of ESG factors and a shift towards incorporating them into reporting practices.

Overall, the survey indicates an increasing awareness and gradual adoption of ESG reporting practices, with many organizations planning to implement reporting measures.

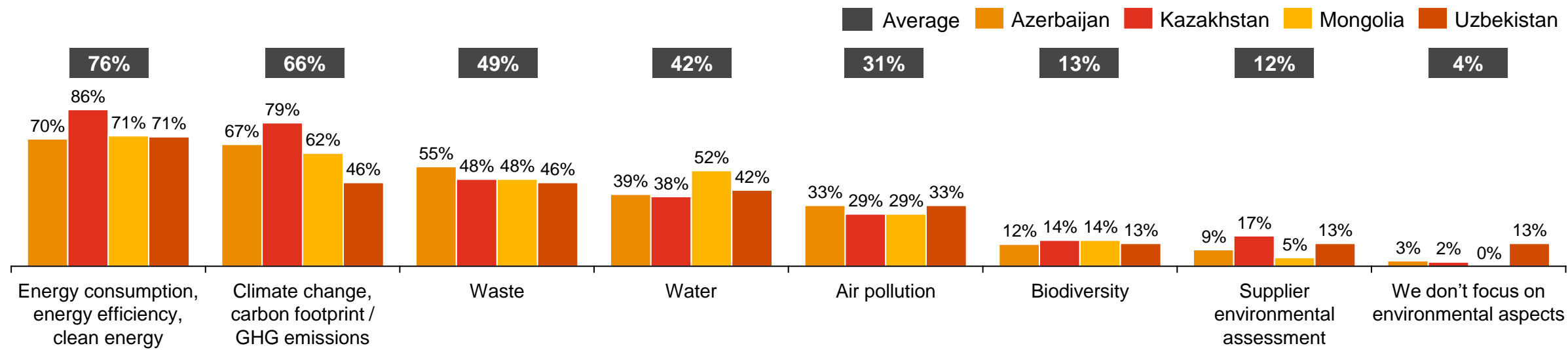
3.3

Top focus areas in ESG implementation



9. ESG aspects of primary focus area

Which environmental aspects are your primary focus area?



As the environmental crisis worsens, the energy consumption topic, as the most widely discussed issue out of ESG agenda, not surprisingly, emerges as the top concern across all four countries. According to the survey results, more than 70% of companies have the energy consumption as the focus issue.

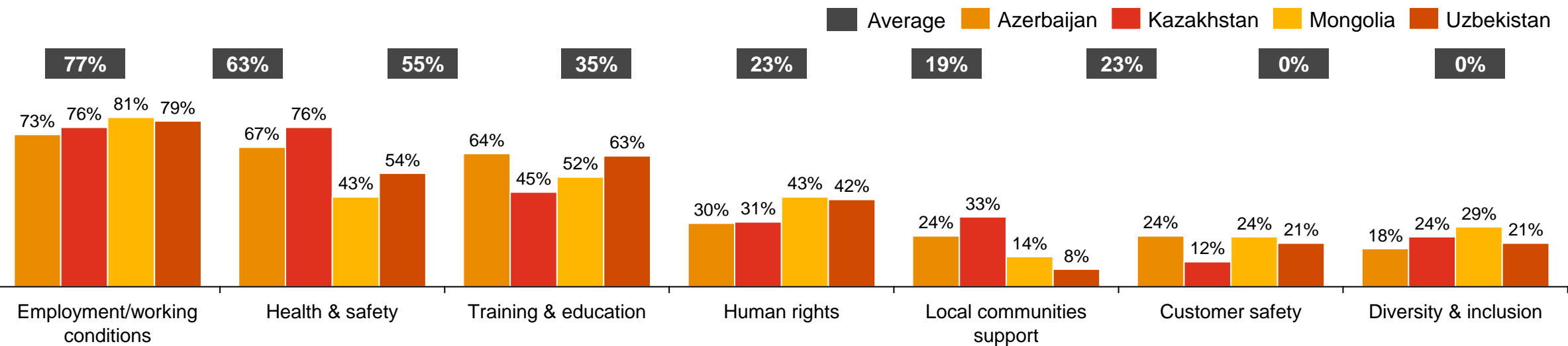
Given that the economy of Azerbaijan is heavily dependent on natural resources, Azerbaijan recognize the crucial need to address energy consumption and prioritize the transition to clean energy.

In 2015, Azerbaijan committed to reducing its greenhouse gas (GHG) emissions by 35% by 2030, compared to 1990 levels. In 2021, Azerbaijan set a new goal to cut emissions by 40% by 2050. To achieve these targets, Azerbaijan has announced plans to increase the share of renewable energy in its installed capacity to 30%, doubling the current capacity.

As part of these efforts, construction began in 2022 on the Khizi-Absheron Wind Power Plant, with a capacity of 240 MW and an investment of \$300 million, and the Garadagh Solar Power Plant, with a capacity of 230 MW and an investment of \$200 million.

9. ESG aspects of primary focus area

Which social aspects are your primary focus area?



The social dimension pertains to the people-related elements of a business or organization, focusing on company culture and issues of human capital. These facets are critical as they reflect the societal impact and ethical standards of a company, which are increasingly influencing investment decisions and consumer behavior.

In our survey, employment conditions, health & safety, and training & education emerged as the universal focal points within the social pillar of ESG, underscoring their significance in creating a robust and sustainable workforce.

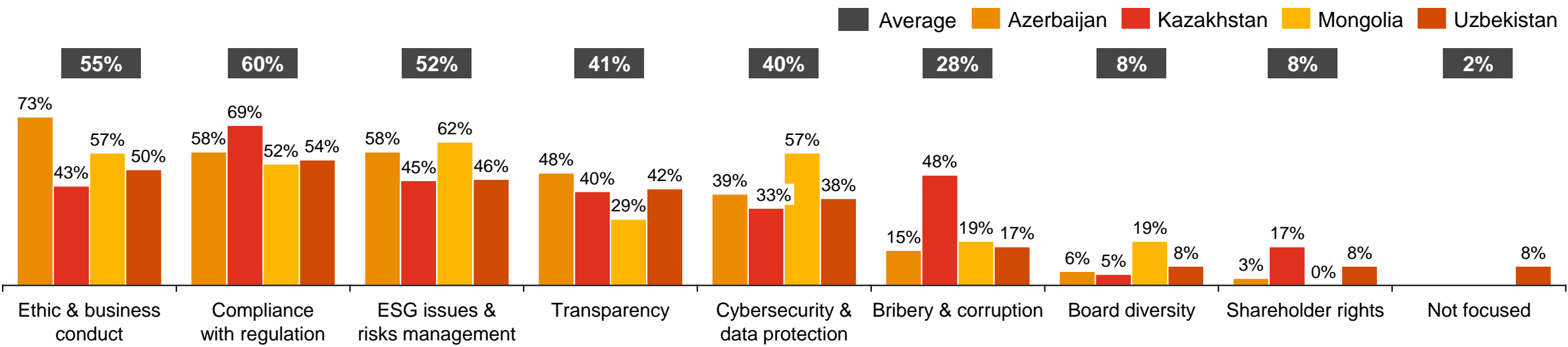
However, there was a notable divergence in the emphasis placed on support for local communities, with 24% of Azerbaijani and 33 of Kazakhstani companies

acknowledging its importance compared to a 14% in Mongolia and 8% in Uzbekistan. This discrepancy could be attributed to the different priorities in economic development, societal expectations, and regulatory landscapes in these countries.

Companies seem to have little awareness about other important social topics, however, countries worldwide are implementing increasingly stringent regulations not only on environmental, but on social issues too, exemplified by initiatives such as the EU Corporate Sustainability Due Diligence Directive, and Azerbaijan is expected to align with this sustainability trend eventually.

9. ESG aspects of primary focus area

Which governance aspects are your primary focus area?



Corporate governance plays a pivotal role in sustainable business practices, encompassing a broad array of policies and procedures that ensure a company operates within legal and ethical standards and maintains accountability to its stakeholders.

In our survey, compliance, ESG & risk management, and business conduct have been unanimously recognized as top priorities. These areas are vital for building a resilient and trustworthy corporate infrastructure.

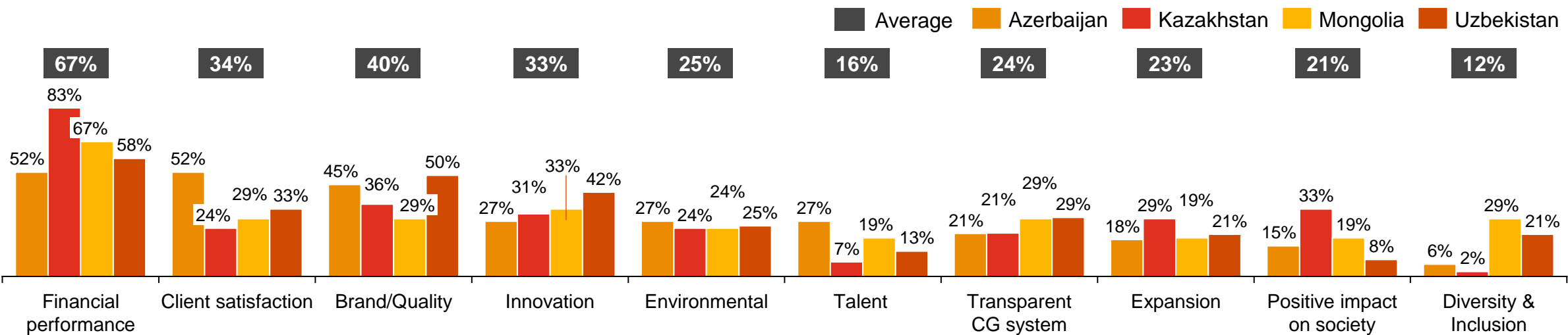
Conversely, there is a marked variance in the attention paid to bribery and corruption. While 48% of Kazakhstani companies are tuned into this issue, the

figures drop significantly for Azerbaijan, Mongolia and Uzbekistan. Such disparities, in general, may reflect the specificities of each country’s policy and need further exploration.

While businesses across countries generally understand key governance concerns, they often overlook the critical areas of shareholder rights and board diversity. These aspects are not only consistently factored into ESG ratings criteria and reporting guidelines, but are also crucial for company’s both general and sustainability-related performance.

10. Top Management priorities

What are the top management's top 3 priorities?



Amidst the increasing focus on ESG aspects within companies, our survey delved into the top management priorities.

Financial performance, Client satisfaction, Brand/Quality, and Innovation were identified as the primary concerns. Notably, in Azerbaijan, financial performance and client satisfaction emerged as the key priorities for companies, with 52% selecting respectively.

Interestingly, factors related to transparency in governance, expansion, positive impact and diversity were less prioritised. Yet, according to a study by MSCI*, it's observed globally that firms with strong ESG practices tend to outperform financially as well. Moreover, failing to effectively manage ESG aspects can introduce numerous risks, potentially culminating in financial downturns for businesses that neglect these critical areas.

Note (*): Morgan Stanley Capital International, ESG and Performance

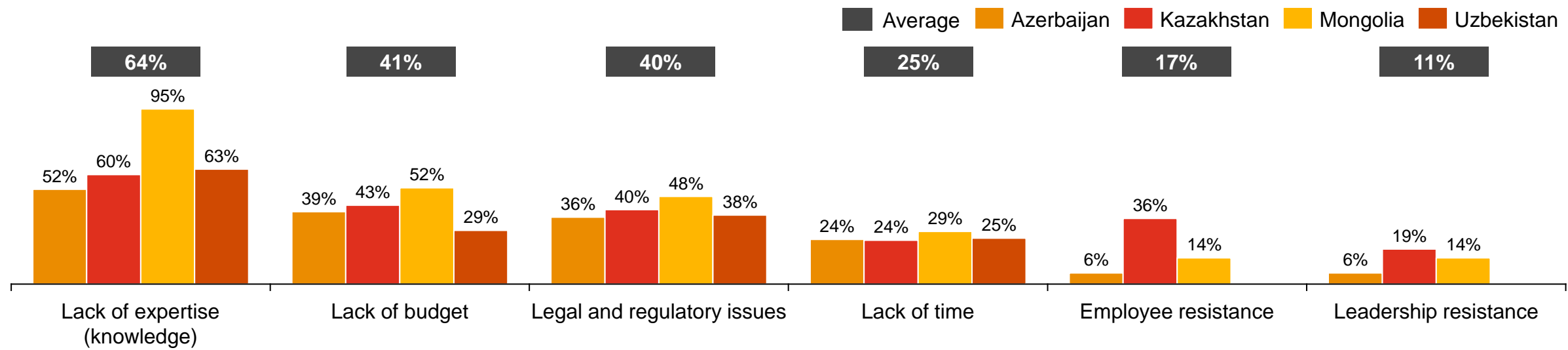
3.4

Organizational Implementation of ESG



11. ESG agenda implementation challenges

What challenges have companies faced when implementing ESG initiatives/projects/programs?



Navigating the complexities of ESG agenda implementation presents significant challenges for companies globally, including those in Azerbaijan, Kazakhstan, Mongolia, and Uzbekistan.

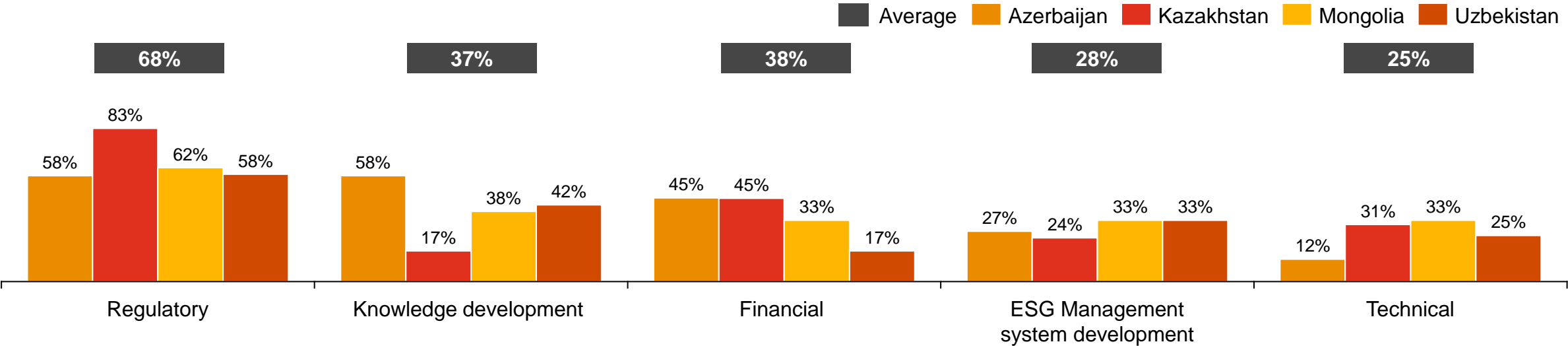
Lack of expertise, limited budget, and legal & regulatory issues emerge as the top 3 challenges encountered by organizations. Despite ESG being widely promoted, many organizations, even globally, have only a basic understanding of sustainability concepts and struggle with the specific steps for successful integration. Budget constraints are recognized as a challenge as many companies perceive ESG integration as an additional cost rather than an intrinsic part of financial performance.

Moreover, the rapidly evolving regulatory landscape adds to the ambiguity, with legal compliance becoming a pressing concern.

Additionally, all four countries face the challenge of limited time, as implementing an ESG strategy demands a substantial investment of time and resources. Companies must be dedicated to sustainability and ethical business practices to successfully implement an ESG strategy.

12. Support needed for ESG implementation

What kind of support, based on companies opinion, will facilitate the implementation of an ESG strategy?



In addition to uncovering the challenges faced by surveyed companies, the survey also investigated the types of support needed to address these challenges.

Regulatory, knowledge development and financial backing emerge as top priorities, highlighting the crucial role of government policies, fostering knowledge development and financial incentives in advancing ESG initiatives. While initial steps, such as introduction of sustainability disclosures, show promise, achieving broader sustainable development goals demands substantial financial investment..

Azerbaijan particularly emphasizes the importance of regulatory and knowledge development, with 58% of companies expressing these requirements.

Additionally, technical assistance and ESG management system development are identified as key needs that are also important but are less emphasized by the companies in Azerbaijan.

The survey results can serve as a strategic guide for governments to identify key areas to support and facilitate the adoption of ESG practices among businesses.

3.5

Climate change



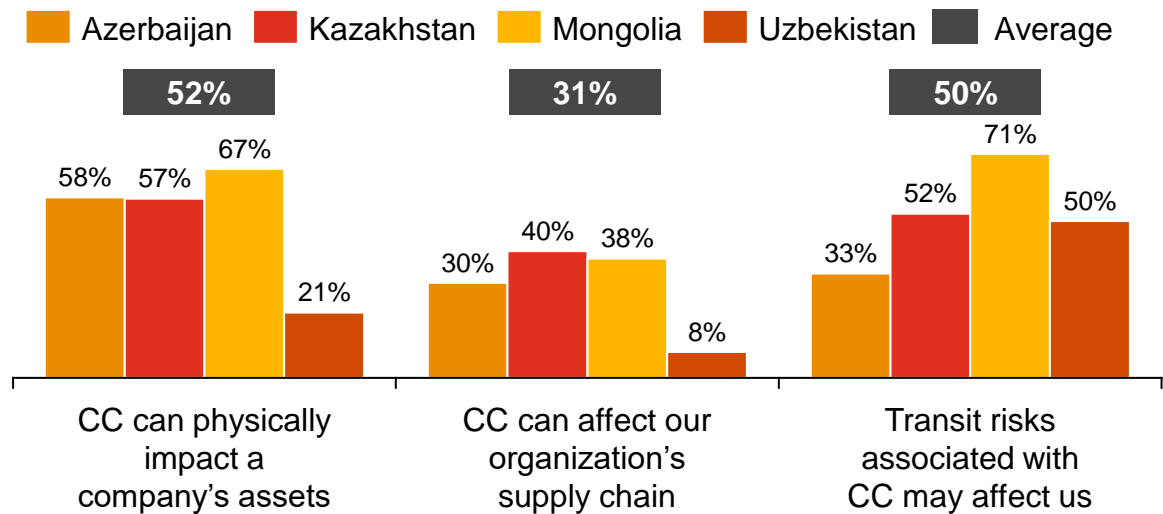
13. Climate change risks affect on business

Do companies think the risks associated with climate change will affect them?

Despite climate risks assessment being one of the most complicated issues in ESG integration and disclosure, the majority of surveyed companies have been taking into account impacts and risks of climate change. Companies differentiate between physical and transitional risks, and some also recognize the importance of assessing risks within their supply chains, albeit to a lesser extent.

The survey findings reveal notable disparities across the surveyed countries: in Azerbaijan, Kazakhstan, and Mongolia, 50%+ of respondents believe that climate change can physically impact a company's assets, while over 30% express concerns about its effects on organizational supply chains. Conversely, companies in Uzbekistan appear to perceive themselves as less susceptible to climate risk impacts, with only 21% and 8% expressing concerns about potential asset and supply chain impacts, respectively.

Climate Change (CC) affect on company operations



15%

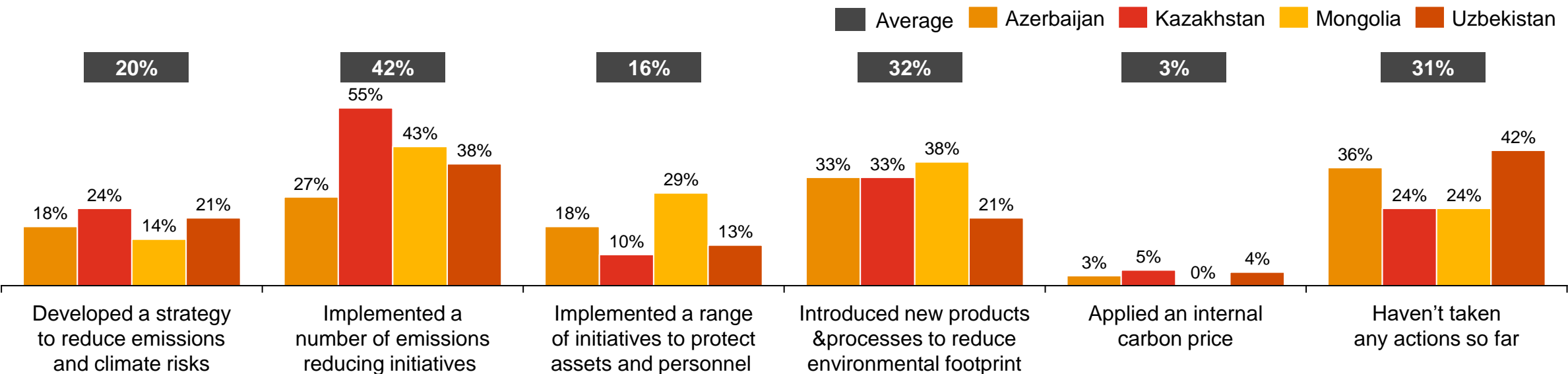
AZ companies state that **climate risks have already affected** their assets or supply chain
KZ: 5%, MN: 38%, UZ: 8%

15%

AZ companies say that they **have not assessed climate risks**
KZ: 17%, MN: 5%, UZ: 33%

13. Climate change risks affect on business

Is the organization taking any action to mitigate the risks associated with climate change?



As businesses confront the increasing impact of climate change on their operations, the discussion around survey results concerning actions taken to mitigate associated risks becomes more relevant. As it was mentioned before, the majority of the companies across countries have been already taking climate risks into account, but there appears to be a lack of systematic actions aimed at mitigating these risks.

The results reveal a mixed landscape: while a larger proportion of surveyed companies are taking steps to reduce emissions and minimize their environmental impact, only 20% have developed strategies specifically aimed at reducing emissions and addressing climate risks.

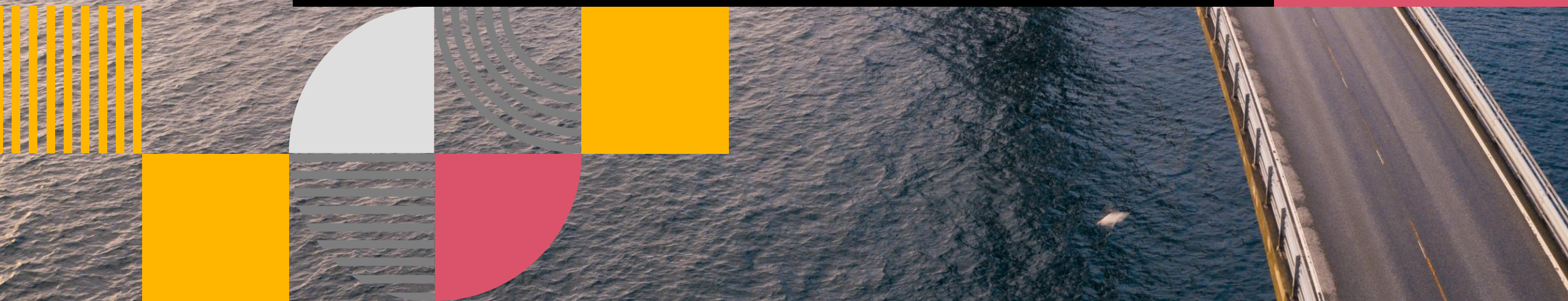
However, having a clear strategy is important because it helps companies identify key issues and plan actions effectively. Without a strategy, initiatives may not be as effective and, in some cases, could lead to a waste of resources.

It's also worth noting that a notable portion of companies, including 36% in Azerbaijan, 24% in Kazakhstan and Mongolia, as well as 42% in Uzbekistan, have yet to take any action in response to climate change risks, highlighting the need for greater awareness and proactive measures in this critical area.

4



Conclusions



Conclusion

The findings of this report reveal a growing relevance of the ESG agenda across survey countries: Azerbaijan, Kazakhstan, Mongolia and Uzbekistan, evidenced by widespread adoption of regulatory measures. The majority of companies acknowledge the importance of ESG factors, with awareness levels ranging from 67% to 97%, and anticipate their continued relevance over time.

In recent years, companies have increased investments in ESG strategies; however, these efforts are still evolving. According to the results, the implementation of ESG strategies varies significantly, with only 21% to 62% of companies having developed comprehensive ESG strategies. Leadership teams primarily handle ESG matters, which emphasizes direct involvement and strategic vision, but also presents implementation challenges.

Identified discrepancies in the maturity of ESG practices suggest varying levels of engagement and starting points across the region. Key challenges include a gap between recognizing primary focus areas, and implementing effective mitigation strategies. Social factors like employment/working conditions and health/safety practices are well recognized, yet significant area of diversity & inclusion and customer safety are less emphasized. Ultimately, the evidence suggests the commitment of the four countries to develop ESG agenda further, however certain challenges still persist.

Azerbaijan is advancing its ESG agenda with notable developments like hosting COP29, approving "Azerbaijan 2030" for socio-economic development, and transitioning to renewable energy sources. However, Azerbaijan's commitment to sustainability is clear, with ongoing initiatives aimed at reducing carbon emissions and promoting environmental stewardship.

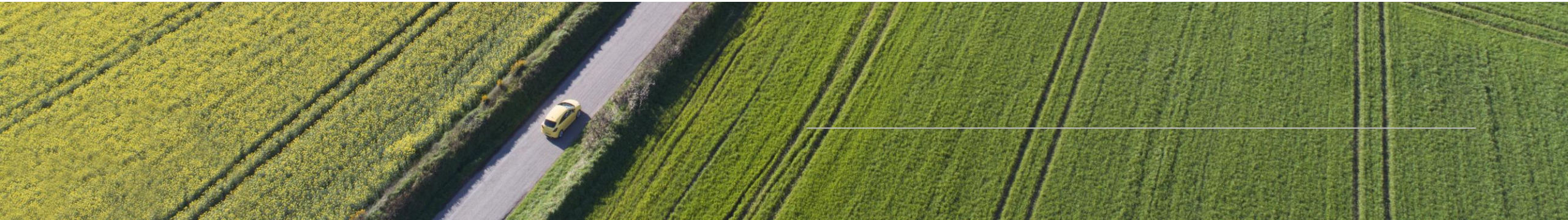
Despite these achievements, specific issues remain prevalent in Azerbaijan. These include a lack of experience, insufficient financial resources allocated to ESG and limited regulatory knowledge. Addressing these challenges provides an opportunity for the government to take action to further improve the effectiveness and coverage of ESG practices.

In general, our findings suggest that while there is significant ESG awareness and regulatory alignment across surveyed countries, the actual integration of these practices into operational strategies needs strengthening to fully harness their benefits for long-term success in sustainable development.

To bridge the gap between awareness and effective implementation of ESG practices, companies should refine their ESG frameworks and develop ESG strategies that are clear, actionable, and measurable. Additionally, enhancing the organizational structure by establishing dedicated ESG roles or committees can help distribute responsibilities and increase the focus on executing ESG initiatives.

There is also a need to increase transparency in ESG reporting to provide comprehensive updates on the progress and effectiveness of ESG strategies. Efforts should be intensified in underrepresented material areas such as diversity & inclusion, and shareholder rights, to enhance corporate reputation and stakeholder trust.

Finally, companies should develop practical and detailed action plans to address critical environmental issues like climate risk, energy consumption, emissions reduction, outlining specific steps and expected outcomes.



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