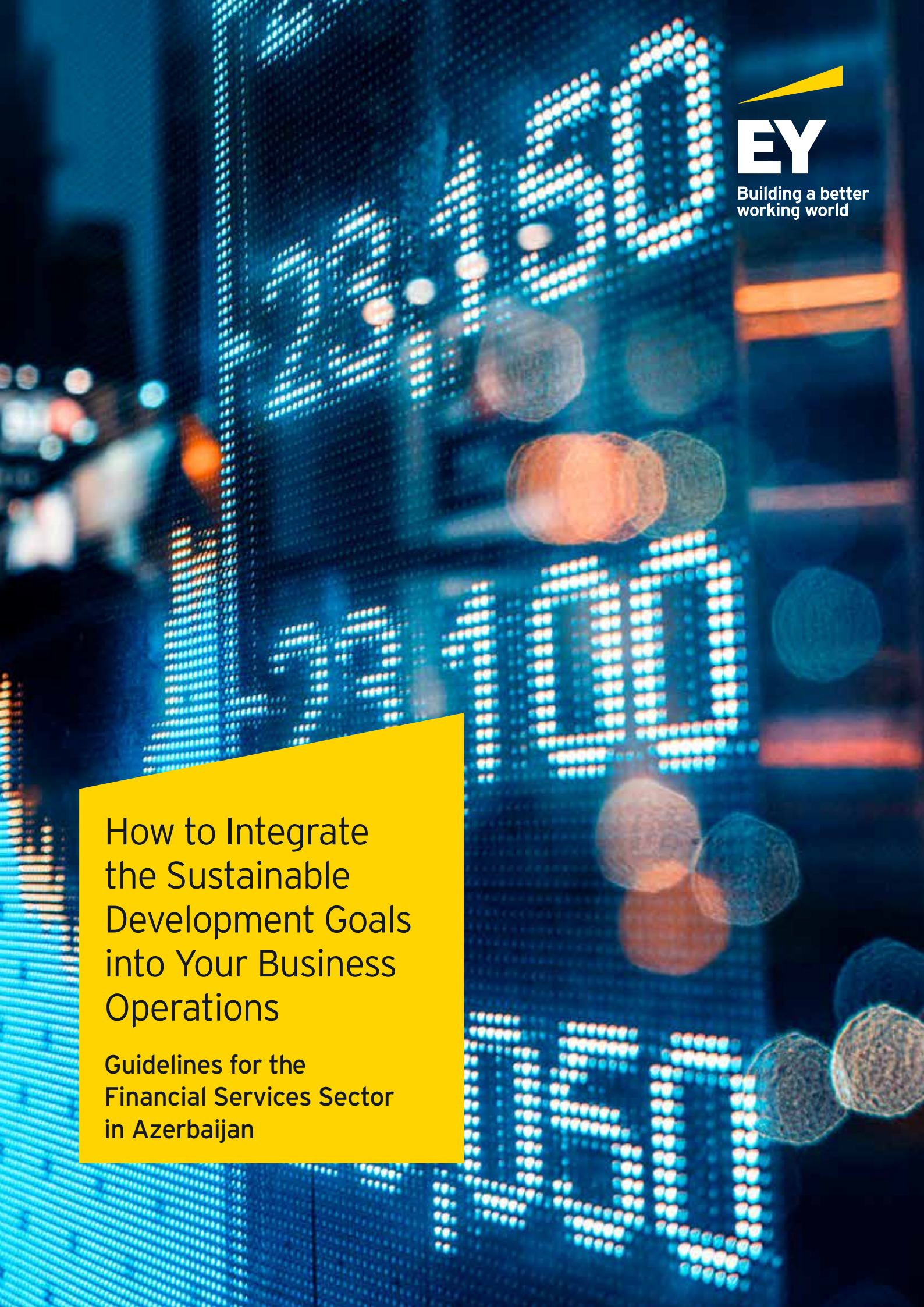


EY
Building a better working world

How to Integrate the Sustainable Development Goals into Your Business Operations

Guidelines for the Financial Services Sector in Azerbaijan

Contents

Statement of Acknowledgement

Initial drafts of this report have been reviewed by individual contributors and global development organizations chosen for their diverse perspectives and technical expertise in the subject matter. The purpose of this independent review was to provide candid and critical comments to ensure that the report met institutional standards for objectivity, reliability, clarity and timeliness as well as to assess the guidelines for each industry vis-a-vis the SDGs.

We sincerely thank the UNDP Country Office in Azerbaijan, the UNDP Istanbul Regional Hub for Europe and Central Asia and the Istanbul International Centre for Private Sector in Development for their insightful feedback, along with valuable suggestions and guidance that helped us make this report an important point of reference for businesses where the SDGs are concerned. EY Azerbaijan would like to take this opportunity to extend its gratitude and strong appreciation to Ben Slay, Marcus Neto and Casper Sonesson of the UN Development Programme, and Jeyhun Atayev, Head of Marketing Department of AccessBank, for their time, expertise and support throughout the process.

Abbreviations and Acronyms

CIS	Commonwealth of Independent States
EBF	European Banking Federation
EBRD	European Bank for Reconstruction and Development
ECBC	European Covered Bond Council
EMF	European Mortgage Federation
ESIA	Environmental and Social Impact Assessment
ESG	Environmental, Social and Governance
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FSI	Financial Soundness Indicator
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GLAAS	Global Analysis and Assessment of Sanitation
ICT	Information and Communication Technologies
IAEA	International Atomic Energy Agency
IEA	International Energy Agency
IFC	International Finance Corporation
ILO	International Labour Organization
KPI	Key Performance Indicator
MDG	Millennium Development Goal
MGI	McKinsey Global Institute
MPA	Marine Protected Area
NDC	Nationally Determined Contributions
NEET	Not in Education, Employment or Training
NGO	Non-Governmental Organization
NPL	National Poverty Line
OECD	Organisation for Economic Cooperation and Development
PES	Payment for Ecosystem Services
PPI	Payment Protection Insurance
PPP	Public Private Partnership
R&D	Research and Development
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SROI	Social Return on Investment
TCFD	Task Force on Climate-related Financial Disclosures
TEEB	The Economics of Ecosystems and Biodiversity
UN	United Nations
UNDP	United Nations Development Programme
UDHR	Universal Declaration of Human Rights
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children's Emergency Fund
VNR	Voluntary National Review
WHO	World Health Organization

Introduction

The objective of this report is to guide local businesses operating in the financial services sector towards understanding the purpose of the Sustainable Development Goals (hereinafter "SDGs" or "Goals") adopted by the United Nations member states, the importance of their implementation in Azerbaijan and, finally, how the financial services sector can contribute to achieving the specified Goals while simultaneously meeting business objectives, thereby supporting the government's efforts.

To efficiently incorporate the SDGs into corporate strategy, businesses should first understand the purpose for which the Global Goals and commitments of the government of Azerbaijan were established. The government has already taken several steps towards prioritizing and implementing the SDGs, however, it should be noted that the Goals may only be achieved in the most effective way possible through the participation of businesses and cooperation between government institutions and other parties.

This report is divided into four parts:

- Part 1 – **Setting the Scene:** Introduces the SDGs and the Paris Agreement, the commitments of Azerbaijan and the role of the private sector.
- Part 2 – **Status Quo:** Provides an overview of the financial services sector in Azerbaijan, and the sector's impact on the economy.
- Part 3 – **KPIs and SDGs Matrix for the Financial Services Sector:** Highlights the most important KPIs and prioritizes the SDGs for the sector taking into account the sector's impact area.
- Part 4 – **SDGs and Financial Services:** Provides comprehensive guidelines for the financial services sector on how to embrace the SDGs under the national 2030 transformation agenda.

Foreword

Ilgar Veliyev

Country Managing Partner for Azerbaijan

DEAR READER,

At EY, our main goal is ***Building a better working world***, which fully reflects how we address sustainable development, and which makes sustainability an integral part of our corporate strategy. Having come to our 25th anniversary in the country, we are proud to say that we have been successfully living up to our main objective. In today's fast-changing and complex economic environment, we acknowledge our growing responsibility for supporting our clients and the business community in Azerbaijan in building sustainable operational structures and delivering excellence to the community by focusing on their value creation. On our part, as of February 2020, EY endorses the UN Principles for Responsible Banking in commitment to sustainable banking. In addition, EY recently announced plans to be carbon neutral by the end of 2020, by both reducing and offsetting its carbon emissions.

Now that Azerbaijan has committed to the 2030 transformation agenda under the Sustainable Development Goals Framework and a 35% emissions reduction under the Paris Agreement, it is time for businesses to support the National Agenda in meeting its commitments through close partnership between industries, government institutions and NGOs.

With an increasing focus on the non-oil sector and assistance from public financing, the government has already made efforts to speed up economic development in the country, and at the same time to improve the environmental and social practices of businesses.

Despite certain challenges, we are optimistic about Azerbaijan's economic outlook and keep our focus on supporting local businesses in recognizing their potential to contribute to the sustainable growth of the national economy. I trust that you will find these guidelines helpful in assessing your business' impact area and navigating it through times of uncertainty towards sustainable business practices.

Part 1

Setting the Scene

Sustainable Development Goals and the Paris Agreement

The Agenda for Sustainable Development adopted by all UN member states at the UN Sustainable Development Summit in September 2015 replaced the eight MDGs (the Millennium Development Goals established following the UN Millennium Summit in 2000). The Agenda includes a declaration of 17 SDGs, 169 associated targets and 230 indicators, as well as a framework under which governments should review progress (UN, 2015). The new Goals are unique in that they call for action by all countries, poor, rich and middle-income to promote prosperity while protecting the planet.

The Agenda provides a standpoint for the upcoming decades of global action, as it not only encompasses environmental issues such as GHG emissions and the depletion of natural resources, but also addresses economic growth and social justice, thereby underlining the links between environmental stewardship, social prosperity, economic development, peace, and human rights.

The Paris Agreement, to which Azerbaijan is a ratified signatory, came into force on 4 November 2016, and commits countries to reducing their GHG emissions. The overarching aim of the Paris Agreement is to keep "the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C".

The Agreement was signed by 197 countries and has been ratified by 187 of them. From 2020, signatories to the Agreement will start carrying out their commitments to reducing carbon dioxide and other GHG emissions, which require urgent transformation to a low-carbon economy with certain targets by 2030.

PICTURE 1.
Sustainable Development Goals Framework

Interdependency between the SDGs

Each and every business should acknowledge the importance of ecosystem services and the environment (**SDG 14** Life below Water and **SDG 15** Life on Land) as a vital precondition to achieving sustainable development. This in turn will supply healthy ecosystem building blocks and renewable energy sources required to achieve, for example, **Goal 11** (Sustainable Cities and Communities) in a sustainable way. To ensure that ecosystem health is not undermined in the development process, consumption practices must be regulated as per **SDG 12** (Responsible Consumption and Production), accompanied by international cooperation and support, managed through **Goals 16** (Peace, Justice and Strong Institutions) and **17** (Partnerships for the Goals). Achieving these Goals will in its turn contribute to the advancement of the Goals targeting social well-being, such as **SDG 5** (Gender Equality) and **SDG 10** (Reduced Inequalities).

However, this should not mean singling out these interdependencies among others. Rather, it should be treated simply as an example of the strong interdependency between the environment/ecosystems and all other Goals.

To make it easy for businesses to align their operations with the SDGs, **Picture 2** depicts the close interrelation between the Goals and their impact area.

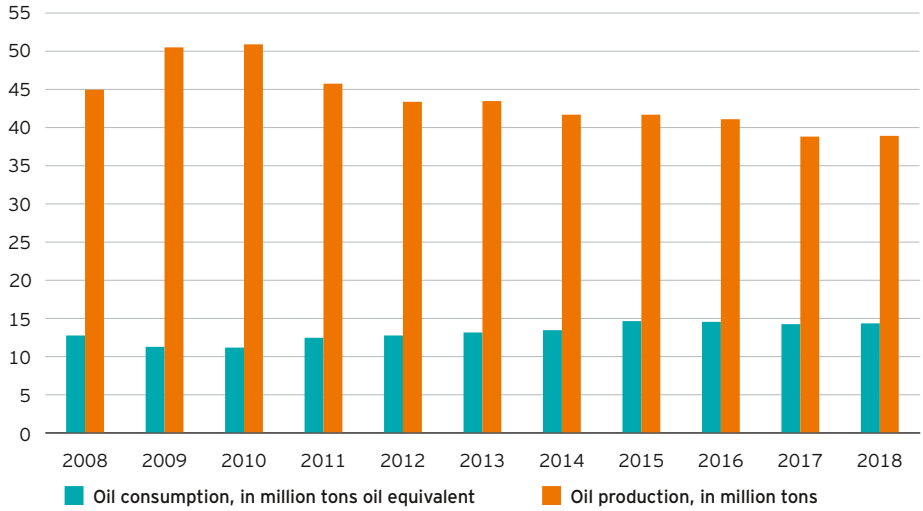
PICTURE 2.
Interdependency between the SDGs

Nationally determined contributions and country-level perspective

All parties to the Paris Agreement have submitted nationally determined contributions (NDCs) containing plans to decrease emissions and transform to a low-carbon economy. However, given that the set targets were not sufficient to keep the global temperature increase below 1.5°C, the UN urged its member states to revise their NDCs again during the High-Level Political Forum in 2019. As a signatory to the Agreement, Azerbaijan has also committed to reducing its CO_2 emissions by 35% by 2030 compared with the 1990 base year. The challenges however should be acknowledged considering the fact that Azerbaijan is an oil-dependent country and transitioning into a low-carbon economy may hinder its economic development – which in turn may adversely affect the achievement of other SDGs. In the decade following the dissolution of the Soviet Union, GHG emissions in Azerbaijan fell by more than 50% between 1990 and 2000. However, due to the rapid development of the energy sector, which causes more than half of the total GHG emissions in Azerbaijan, from 2000 to 2017 emissions increased by almost 25% (State Statistical Committee of Azerbaijan, 2018). Despite the target to reduce emissions, which are mostly impacted by oil and gas exploitation and consumption, the World Energy Outlook statistics show that Azerbaijan targets to increase natural gas production to 33 billion m^3 in 2020, 38 billion m^3 by 2025, and 43 billion m^3 by 2030, while at the same time oil production is aimed to reach 29 million tons in 2020, 32 million tons in 2025, and 27 million tons in 2030 (OECD, 2009). In addition, BP Statistical Review of World Energy shows that oil consumption has not changed from 2007 to 2018, remaining at 4.6 million tons with slight increase from 2013 to 2017, regardless of the decrease in oil production, which has dropped from 43.4 million tons in 2007 to 39.2 million tons in 2018 (BP, 2019).

Besides the energy resources production and consumption, energy-stimulated CO_2 emissions have also increased from 29.6 million tons in 2008 to 31.8 million tons in 2018 (BP, 2019).

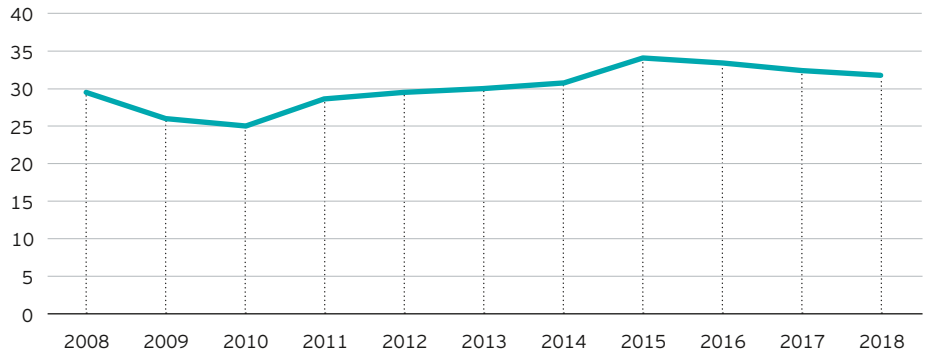
FIGURE 1.
Oil consumption and oil production in Azerbaijan, in million tons



Source: BP Statistical Review of World Energy, 2019

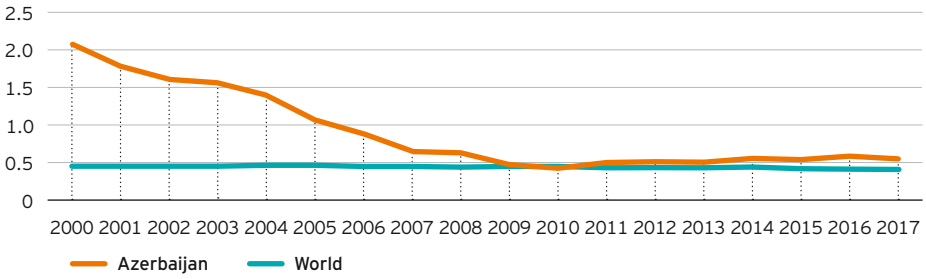
> The challenges should be acknowledged considering the fact that Azerbaijan is an oil-dependent country and transitioning into a low-carbon economy may hinder its economic development – which in turn may adversely affect the achievement of other SDGs.

FIGURE 2.
Energy-stimulated CO_2 emissions in Azerbaijan, in million tons



Source: BP Statistical Review of World Energy, 2019

FIGURE 3.
CO_2 intensity, in unit of GDP



Source: IEA World Energy Balances, 2018

Another interesting fact is that CO_2 emissions per unit of GDP have decreased from 2.08 kg in 2000 to 0.55 kg in 2016 (IEA, 2018). Although Azerbaijan accounts for only 0.15% of global GHG emissions (World Resources Institute, 2018), de-carbonization of the local economy is significant for a number of reasons. Firstly, Azerbaijan's economy is energy intensive due to the dominance of the export-orientated oil and gas exploration, refining and petrochemical industries. Secondly, Azerbaijan plays a major role in the Caspian region in terms of economic and political leadership. Therefore, by adopting appropriate strategies to transfer to a low-carbon economy, Azerbaijan can influence neighboring countries to reach their carbon reduction targets and achieve the SDGs. Furthermore, drawing from the aforementioned statistics, reduction of conventional energy sources and their consumption is also crucial to transform to low-carbon economy. Some NDCs, including the NDCs submitted by the government of Azerbaijan, are contingent on receiving technology and funds transferred from developed countries. Most importantly, the involvement of the business community in the process, which is currently low in Azerbaijan, is crucial for achieving the targets.

Currently, Azerbaijan ranks at 45 in the Global SDG Index, with a score of 70.8 (SDG Index, 2019).

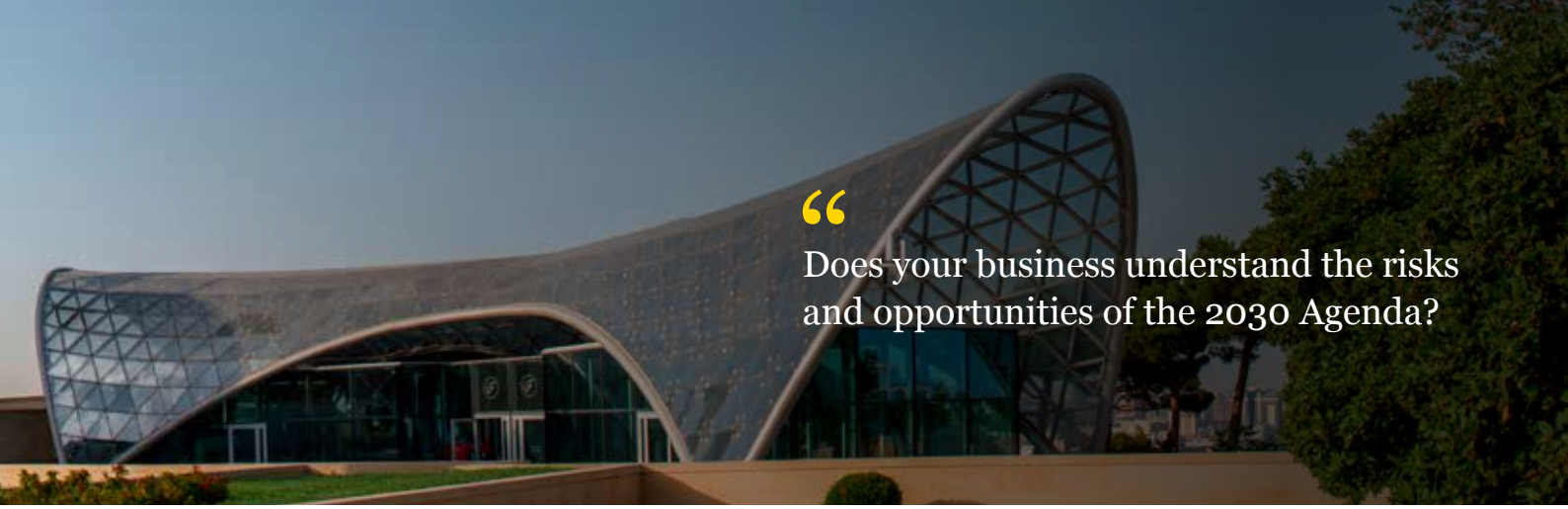
PICTURE 3.
Azerbaijan's SDG indices in 2018

	1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS
Azerbaijan	↑	→	↗	↗	→	↗	↗	↗	••	••	↗	••	→	••	→	→	↗

↓ Decreasing → Stagnating ↗ Moderately increasing ↑ On track •• Data not available

Source: Sustainable Development Report 2019, SDG Index

Despite being on track with **SDG 1** (No Poverty) thanks to a number of structural reforms in the past decades and the stimulation of economic growth particularly in the non-oil sectors of the country, Azerbaijan's progress against all the other SDGs leaves a considerable room for improvement. **SDG 4** (Quality Education) and **SDG 8** (Decent Work and Economic Growth) both are evaluated as 'Moderately Increasing' due to legislative shifts, including introducing grievance mechanisms for the secondary educational institutions and improvements to the national Labor Code. However, health and safety issues are still prevalent in the workplaces, and substantial structural improvements are needed for the higher educational institutions, thus hindering the achievement against both SDGs. Since gender equality has historically been an issue in the country, and even more so in the rural areas, **SDG 5** (Gender Equality) is shown as 'Stagnating', and no tangible progress has been recorded. Both **SDG 6** (Clean Water and Sanitation) and **SDG 7** (Affordable and Clean Energy) are shown as 'Moderately Increasing' due to a number of legislative changes and policy adoptions regarding further stimulation of the increase in access to clean water and share of renewable energy in the total energy consumption of the country. It should be noted that **SDG 6** is extremely sensitive and fragile in the case of Azerbaijan considering relatively limited freshwater supply of the country, so the Goal is prone to stagnate easily if certain measures are not taken properly. **SDG 11** (Sustainable Cities and Communities) is evaluated as 'Moderately Increasing', explained by large-scale infrastructural projects and expansion of the construction and tourism sectors. **SDG 15** (Life on Land) and **SDG 2** (Zero Hunger) are both evaluated as 'Stagnating', which can be explained by unsustainable agricultural practices prevalent in the country, and threatened food security as a result of both environmental and economic impacts. **SDG 13** (Climate Action) is also stagnating, due to an extremely low level of awareness of the civil population and very low involvement by the businesses. In addition, high dependency of the national economy requires greater reform agenda from the government to align policies to create the environment for the transition to low carbon economy. The process is currently hindered due to limited capacity of related stakeholders, and policy-makers in particular. **SDG 17** (Partnerships for the Goals) is also shown as 'Moderately Increasing', since the government of Azerbaijan has prioritized enhancing multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources. Driven by this commitment, a range of awareness raising activities co-organized by the UN's specialized agencies operating in Azerbaijan and the Ministry of Economy (Secretariat of the National Council) were implemented for the adaptation of the SDGs to the national priorities. No data is available for 4 goals (namely, **SDGs 9, 10, 12, 14**), hence it has not been possible to measure the progress for these SDGs. Responding to a growing demand for national and international data to track and monitor the progress towards the implementation of the SDGs, a new National Information Portal on the SDGs was launched by the UNDP and the State Statistical Committee of Azerbaijan in July 2019. While a promising and noteworthy initiative, there is considerable room for improvement since data-collection and monitoring processes are currently rather immature.



> Does your business understand the risks and opportunities of the 2030 Agenda?

On October 6, 2016, a National Coordinating Council for Sustainable Development was established by a decree of the President of the Republic of Azerbaijan. The main objective of the Council is to ensure the harmonization of the socio-economic state programs and strategies with the SDGs, as well as to prepare and submit progress reports on the SDGs within the framework of Voluntary National Reviews (VNRs).

It is expected that the government of Azerbaijan will be pursuing an ambitious structural reforms program in the coming years, and it recognizes the SDGs as a comprehensive framework providing an integrated approach to development, complementing and reinforcing strategic roadmaps. As of 2018, the government has prioritized all 17 SDGs and 86 relevant targets (National Coordination Council of Azerbaijan for Sustainable Development, 2018), which are expected to accelerate and largely influence future legislative changes.

The SDGs will necessitate close collaboration between governments, public and private sector players and will involve not only large-sized corporations but small to medium-sized enterprises as well (which according to the State Statistical Committee of Azerbaijan respectively constituted 4.7% and 1.3% of national economy in 2017), since they are the backbone of many developing economies. This is equally critical for a coherent and systematic approach to achieving the Global Goals.

How would implementation of the SDGs benefit your business and the government?

Notwithstanding a certain skepticism among some developing economies, there is no doubt that future policies and regulations will be instrumental in directing investments to priority sectors and will impede businesses that have a negative social or environmental impact. The SDGs are also becoming increasingly relevant for businesses in Azerbaijan if they want to maintain their operating licenses. The government of Azerbaijan has highlighted the importance of businesses operating both in public and private sectors as indisputable change agents for a transition towards more sustainable economic growth supporting income generation, technology transfer, and job creation (Voluntary National Review of Azerbaijan, 2019). Major areas that need to be addressed jointly by the government and the businesses, such as overcoming data and information gap, changing the economics of SDG investments, non-financial reporting and others, have also been identified in the VNR (Voluntary National Review of Azerbaijan, 2019).

Further, there is a growing international pressure on financial institutions, private equity funds, and pension funds to switch to sustainable business practices and integrate ESG (Environmental, Social, Governance) principles into investment decisions. Additionally, unstable oil prices and a credit rating downgrade could constrain capital inflows, increasing reliance on FDI for ongoing concerns of businesses. Such external pressures will inevitably compel businesses to be more transparent, more risk and opportunity oriented, and treat natural and human capital ethically. Therefore, incorporating sustainability practices into overall operations and acknowledging that "business as usual is not an option anymore" may be the only survival strategy for businesses that are dependent on FDI (Business and Sustainable Development Commission, 2017). In fact, there is a growing trend towards global investments being diverted to projects and organizations embracing sustainability practices, particularly in developing countries. It is essential for businesses to be aware of the trend towards new policies that will likely emerge not only in accounting and data-collecting, but also in reporting on corporate contributions to sustainable development. Therefore, the rest of this report will navigate businesses operating in the financial services sector through possible opportunities that arise as a result of ongoing global and local changes.

Part 2

Status quo

> Sustainability for businesses means being able to exist in the long term in harmony with society and the environment, being compliant with local and international laws and regulations whilst remaining profitable. Inadequate fulfillment of any one of these options translates into poor management of business risks, which in turn will certainly cause a cash deficit leading to additional liabilities and bankruptcy risk.

Brief overview of the Financial Services Sector

As a result of the impact of oil price shock, Azerbaijan's economy declined by 3.8% and the non-oil sector shrank by 5.4% in 2016. However, the weak recovery of oil prices, the emergence of new growth opportunities for the tradable sectors through the impact of the declining national currency as well as the launch of economic reforms supporting the supply in the country – such as liberalization of the business environment and stimulation of exports led to the gradual economic restoration in 2018. In general, the economic growth rate in 2018 was 1.4% and the non-oil economy increased by 1.8%. As a result of increased import prices with devaluation shocks, inflation rate in 2017 was 12.9%, and dropped by more than 10 percentage points to 2.3% in 2018 (European Banking Federation, 2019).

Owing to the abolition of the licenses of 11 banks in 2016 and 2 banks in 2017, 30 banks operated in the market in 2018, of which two are state-owned and 28 are private banks. The share of foreign capital in eight out of 15 foreign capital banks is over 50%. Two of these banks are local branches of foreign banks (European Banking Federation, 2019).

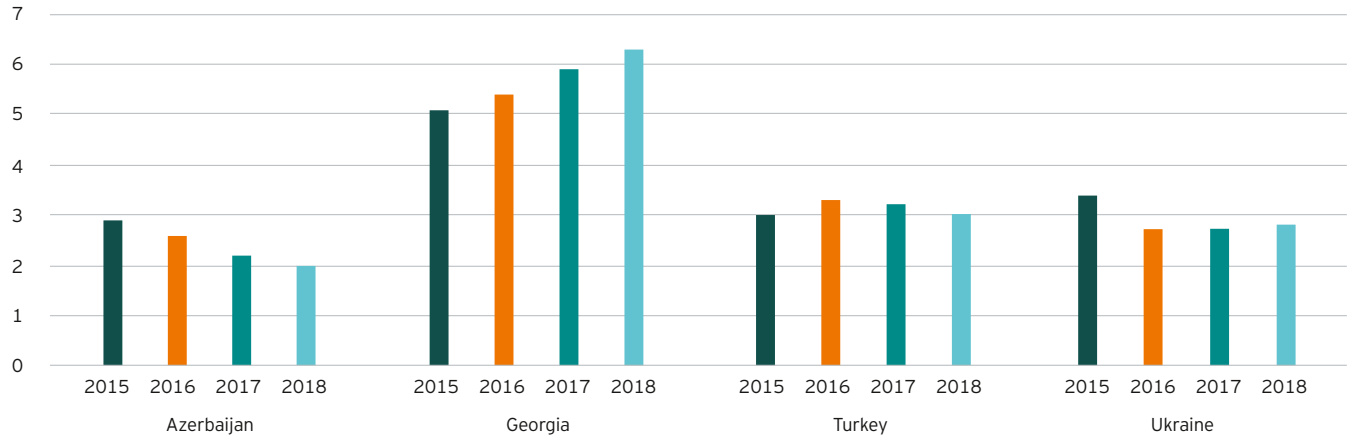
With the impact of double devaluation in 2015, the value of bank assets decreased by 11.2% amounting to US$ 15.2 billion, loan portfolio declined by 14.8% amounting to US$ 6.7 billion, and non-performing loans decreased from 13.8% to 12.2% in 2018. Despite complex economic conditions, the banking sector continued to capitalize: the total capital of the sector increased by 9.8% in 2018 amounting to US$ 2.1 billion – almost 18% of banking sector liabilities (European Banking Federation, 2019).

With stabilization of manat and its relatively high interest rates, the level of dollarization in deposit and savings dropped. In 2018, the dollarization level in deposits and household savings dropped by 7.1 percentage points and 4 percentage points respectively (European Banking Federation, 2019). However, the generation of revenues in the banking sector was restored – interest income of the sector in 2018 amounted to US$ 601.6 million, non-interest losses amounted to US$ 244.8 million, and the net profit (after tax) amounted to US$ 143.5 million (European Banking Federation, 2019). Although there was a 6% increase in the banking sector's deposit base, the savings and non-financial organizations' deposits rose by 10.7% and 7.6% respectively (European Banking Federation, 2019).

When comparing the contribution of the financial services sector to GDP in countries close to Azerbaijan both territorially and economically, it can be observed that the numbers fluctuate around 3% to 5%. Nevertheless, the financial services sectors of Russia, Turkey and Georgia contribute more to their respective GDP compared to Azerbaijan. Additionally, the trend of GDP contribution by the sector has been declining in the past three years, which can be explained by the fact that a number of local banks have lost their licenses during this period, and the bad debt ratio of the loan portfolios is quite considerable.

> Banks and other financial institutions have a powerful tool to promote change – it's the essence of what they're doing. They can blacklist industries that contribute to climate change such as coal-fired power, agro-industries involved in deforestation, or sectors where there are human rights violations.

FIGURE 4.
GDP contribution by financial services sector in Azerbaijan and other countries between 2015-2018, in percentage



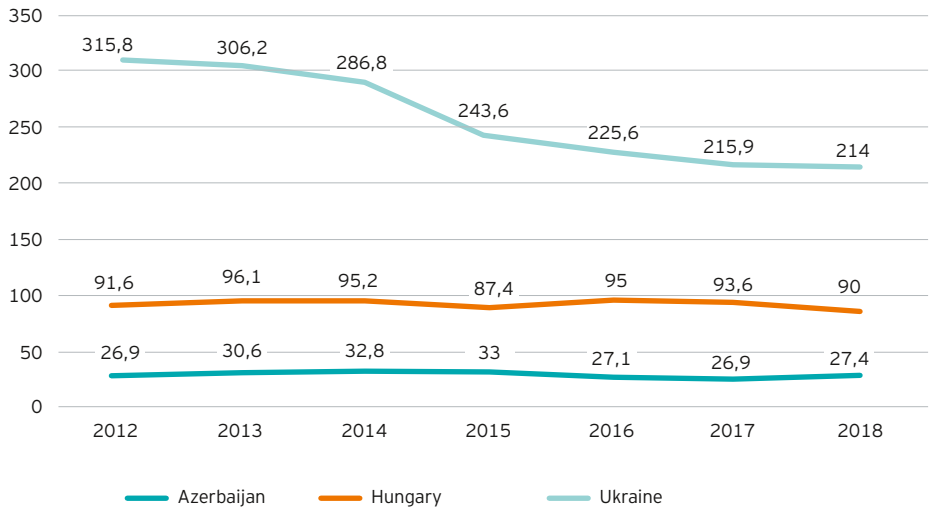
Source: The State Statistical Committee of Azerbaijan, 2019; National Statistics Office of Georgia, 2019; Turkish Statistical Institute, 2019; Invest Brothers, 2018

Despite showing a humble 6% increase in 2016 and a 13% increase in 2017, the deposit levels at financial institutions are not yet close to the pre-devaluation levels of 2014. Another loan crisis could exacerbate the economic slowdown further, posing potential threats to the financial institutions, making it burdensome to raise capital. This is a strong indication that the general trust in the financial services sector has deteriorated leading to a preference of the general population to keep their money in cash holdings rather than investing it. Lack of trust in the financial services sector hobbles both economic growth and financial stability of the country, contributing to unemployment and slowdown of SME and start-up development. Although it is difficult to measure the cost of social capital, the effect of the erosion of trust on the whole economy is unquestionable.

Coupled with the growing pressure on the financial services sector to adopt ESG leadership and initiatives, this means the sector is expected to play a pivotal role in facilitating significant change in the national economy through responsible financing. Regulations and new policies, both on global and local scale, will help accelerate progress, but changes in consumer habits and a shift in stakeholder expectations around investing and short-term profits will be the driving force behind the transformation of the industry and the economy as a whole.

FIGURE 5.

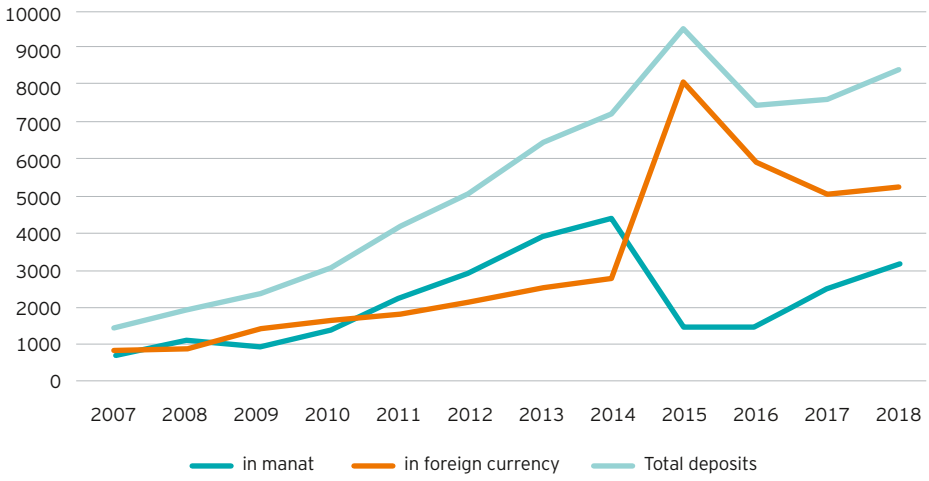
Number of employees in the financial services sector in Azerbaijan and other countries, in thousand



Source: The State Statistical Committee of Azerbaijan, 2019, State Statistics Service of Ukraine, 2019, Hungarian Central Statistical Office, 2019

FIGURE 6.

Total deposits by households in financial institutions in Azerbaijan, in million



Source: Central Bank of the Republic of Azerbaijan, 2019

Part 3

KPIs for the Financial Services Sector and the SDG Matrix

KPIs for the Financial Services Sector

All industries have KPIs to define, measure, monitor, and track performance over time towards the attainment of the stated goals. Below are the main KPIs for the financial services sector to integrate the SDGs into business operations. Although the KPIs are classified separately as general and sustainability-specific, it's critical to understand that all of them are interrelated and it's not possible to achieve sustainability-specific KPIs without achieving the general KPIs, and vice versa. In fact, according to the latest research by McKinsey Global Institute (MGI, 2018), companies with high ESG ratings have a lower cost of debt and equity, which means responsible financing initiatives can help improve financial performance while fostering public support.

FIGURE 7.
Main KPIs for the financial services sector*

GENERAL AND SECTOR-SPECIFIC

- Gross margin
- Operating margin
- Operating expense ratio
- Net margin
- Current ratio
- Accounts payable turnover ratio
- Accounts receivable turnover ratio
- Return on assets
- Return on equity
- Return on investment
- Percentage of actuals' deviation from budget
- Average sum deposited in new deposit accounts
- Debt-to-asset ratio
- Number of past due loans
- Total assets
- Total liabilities

SUSTAINABILITY AND COMPANY-SPECIFIC

- Number of commercial bank branches and automated teller machines per 100,000 adults
- Financial Soundness Indicator (FSI)
- Proportion of adults with an account at a bank or other financial institution
- Number of board meetings where ESG topics were discussed
- Financial literacy as a percentage of the population
- Share of social impact investments in the portfolio
- Share of women-owned businesses in the loan portfolio
- Proportion of women in managerial positions
- Number of policies and principles regarding women empowerment
- Ratio of entry-level wages for female and male employees
- Number of employee hours spent on learning and development, by sex
- Number of suppliers assessed for social impacts, including gender equality
- Proportion of female adults with an account at a bank or other financial institution
- Number of water sustainability and water efficiency initiatives conducted per year
- Energy efficiency and renewable energy projects share in the product portfolio
- Share of environmental impact investments in the portfolio
- Carbon footprint reduction in the product portfolio
- Reduced energy intensity/energy consumption unit in the product portfolio
- Percentage of small-scale businesses with a loan or line of credit
- Number of suppliers assessed for labor practices
- Share of people with disabilities in employment
- Number of grievances received on labor practices
- Share of loan applicants assessed for compliance with ILO conventions
- Share of operations under digital transformation
- Number of people trained in digital skills
- Share of investments in innovation and technology
- Return on Climate Change investment
- Share of environmental impact investments in the investment portfolio
- Research and development expenditure as a proportion of investment
- Percentage of corporate loans assessed for environmental impact
- Proportion of budget spent on training and development of SMEs and start-ups
- Share of operations assessed for climate-related risks and opportunities
- Number of automated teller machines for people with special needs
- Percentage of small-scale businesses and start-ups with a loan or line of credit
- Sustainable investments share in the portfolio
- Share of conservation finance projects in the investment portfolio
- Share of corporate loan applications assessed for environmental and social impacts
- Number of suppliers assessed for environmental impacts
- Total value of inward and outward illicit financial flows
- Number of anti-corruption training hours
- Number of human rights training hours
- Share of suppliers assessed for governance, corruption and human rights risks
- Number and quality of published sustainability reports with long-term targets
- Number of consultation session per stakeholder category

*This list is not exhaustive and only includes the most applicable KPIs.

SDG Matrix for the Financial Services Sector

Based on the above KPIs, the industrial impact of the financial services sector and the SDG indicators, the SDG matrix for businesses operating in the sector will look roughly as depicted below. The matrix may look different depending on various factors such as the region, sub-sector, operating environment and so on.

As can be seen from the matrix on the right side, financial institutions have an important role to play in using their resources to promote economic and social development in virtually every field – they can accelerate the development of sustainable finance and sustainability in general. By committing to deliver long-term value for their shareholders, society and the environment, financial institutions can make a real difference while benefiting from a significant opportunity: International Finance Corporation (IFC) estimates there are US$ 23 trillion of climate-related sustainable finance opportunities in emerging markets alone in the years up to 2030 (IFC, 2017).

Banks and other financial institutions have a powerful tool to promote change – it's the essence of what they're doing. They can blacklist industries that contribute to climate change such as coal-fired power, agro-industries involved in deforestation, or sectors where there are human rights violations. They can also support microfinance, renewable power, blended finance which uses development finance to leverage private sector funds and other financing that promotes sustainability.

Since all of these may significantly contribute to poverty eradication, it makes **SDG 1** of high relevance to the industry. **SDG 5**, which stands for gender equality, has historically been an issue for Azerbaijan. Equal access to financial services contributes to the independence and empowerment of women and supports their active involvement in the economic and social life. Financial institutions have the necessary tools to train people in a broad range of business and professional skills, thereby contributing to the quality of overall education and employability of the population. Hence, both **SDG 4** and **SDG 8** are of high relevance to this industry as well. As already mentioned above, the financial services sector can participate in combatting climate change **(SDG 13)** by financing activities that reduce carbon emissions, helping communities adapt to climate change, and directly financing sustainable infrastructure such as green housing. **SDG 6** is another Goal for the achievement of which the sector plays a pivotal role, since water scarcity in the country can only be tackled by incentivized financing of businesses and initiatives focused on water efficiency, as well as water conservation or reuse.

PICTURE 4.
SDG matrix for businesses operating in the financial services sector

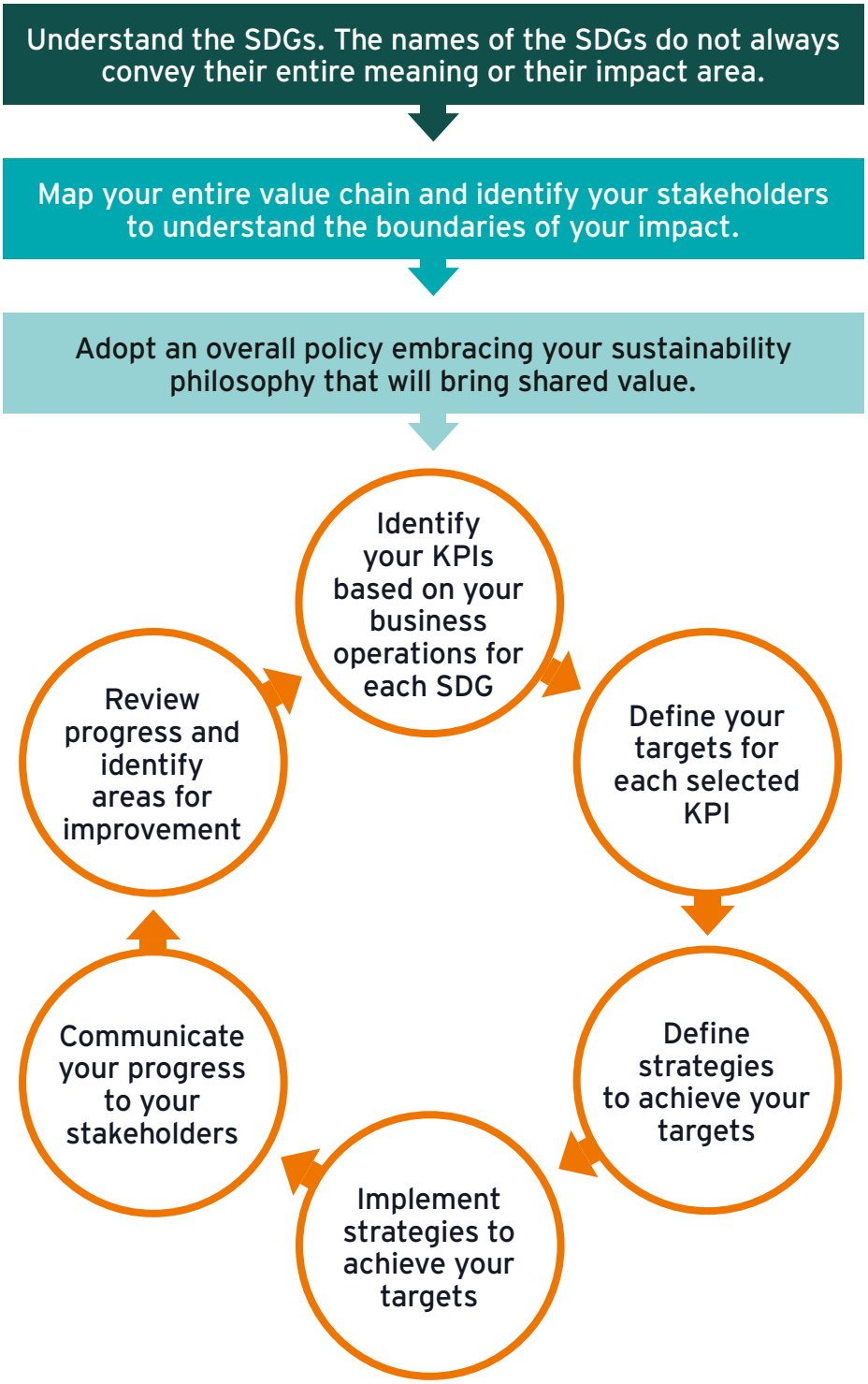
By applying new technologies such as mobile payment services, by offering banking services to those who live in areas with poor infrastructure, or by stimulating local entrepreneurial eco-systems in less developed regions, the sector can address the challenges related to **SDG 9**, which aims to build resilient infrastructure and sustainable industrialization, to **SDG 10**, which aims to reduce inequality within and among countries, and to **SDG 11**, which aims to make cities and settlements inclusive, safe and sustainable. Progress in achieving **SDG 16** can also be accelerated significantly by financial institutions promoting transparency and accountability at all levels internally, as well as in the supply chain and product portfolios. Finally, as it is applicable to every industry, **SDG 17** is at the heart of the mission to help build consensus for a sustainable world.

> “International Finance Corporation (IFC) estimates there are US$ 23 trillion of climate-related sustainable finance opportunities in emerging markets alone in the years up to 2030.

What is the right procedure for integrating the SDGs into your corporate strategy?

The following figure features the steps to be taken by businesses to integrate the SDGs into their corporate strategies.

FIGURE 8.
Visual representation of the steps to be taken by businesses to integrate the SDGs into their corporate strategies



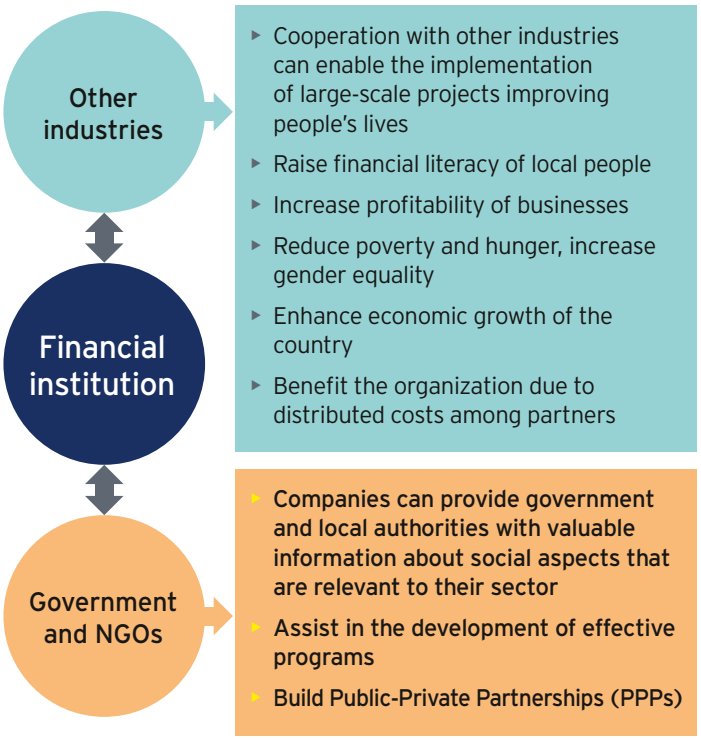
Part 4

Putting goals into work

This part reviews the SDGs that are most relevant to the financial services sector, combining some of them with similar targets and overlapping impact areas, for better clarity and comprehension. A set of relevant targets and ready-to-apply KPIs specifically adjusted for the companies operating in the financial services sector have been identified for each Goal. Best case examples from a number of global corporations and organizations in the financial services sector that have demonstrated initiatives in sustainability practices within their business operations have been carefully researched and presented within the context of the relevant SDG. A library sheet, which features useful resources and guidelines, as well as ready-for-use tools that may be employed by businesses, are also added at the end of each Goal.

The first featured Goal is **SDG 17**, as partnerships are a means to achieve all other Goals, and without partnerships that cross-cut geographical boundaries and sectors it will be rather challenging to achieve the implementation of the SDGs. For this exact reason targets and KPIs have not been provided for this Goal, since the main objective of the Goal is to foster partnerships between not only businesses, but also industries as a whole, and even states.

Although sometimes mistakenly perceived as the lowest of the priorities of the SDGs, **SDG 17** embraces all other Goals and is in fact the SDG that all other Goals rely on for their achievement. It specifies the role of partnerships between organizations, industries and countries as being crucial for achieving sustainable development. For instance, close cooperation between food companies and financial institutions to raise the financial literacy of local farmers, and to increase the profitability of their businesses, will contribute to reducing poverty and hunger. This in turn will improve gender equality by stimulating a more active participation of women in the industry, hence accelerating the economic growth of the country. Companies can provide the government and local authorities with valuable insights into social aspects that are relevant to their industry and assist in the development of effective programs. Such partnerships will certainly be profitable for the respective company as well, since the costs are divided among the partners, and each of them operates in the sector where their experience is valuable. Throughout this report, a number of successful partnership projects of global organizations with other organizations, NGOs and governments will be featured. This demonstrates the effectiveness of partnerships and their fundamental role in achieving the SDGs.



☆ BEST PRACTICE

- The best examples of partnerships between organizations are industrial symbiosis[1] and a circular economy[2] as being key in enabling businesses to progress. In 2015, the EU set a roadmap for creating a circular economy society which stimulated a sharing economy, promoting a circular mindset over a linear one, and considering waste as a resource, while at the same time promoting economic growth and environmental stewardship.
- The leading bank of the Netherlands, ING, has partnered with the Dutch government in its Valuing Water Initiative launched in March 2019. The project, advocated by the Prime Minister of the Netherlands, aims to guide investments for sustainable water use and inspire innovation in water management policies across countries and sectors. In this collaboration with the government, ING will use its network and financial expertise to help develop sustainable solutions for water challenges (ING, 2019).

[1] Industrial symbiosis is the use by one industry or sector of by-products, including energy, water, logistics and materials, from another (European Commission, n.d.).

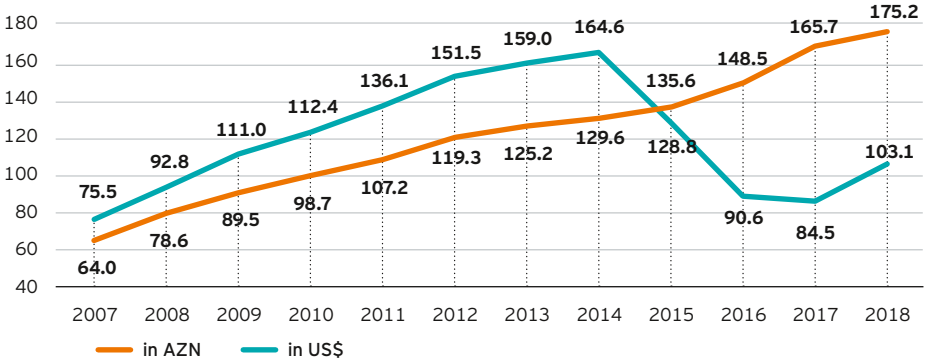
[2] Circular economy is an economic system aimed at eliminating waste and making the most of resources. This regenerative approach (Triple R: Reduce-Reuse-Recycle) is in contrast to the traditional linear economy, which has a 'take, make, dispose' model of production.

We combined **SDG 1** and **SDG 10** due to their similar targets and impact areas. Both SDGs consider potential ways to stimulate the reduction of poverty and financial inequality, and to avoid the violation of basic human rights.

Whilst the internationally recognized poverty line is at US$ 57 per month, the equivalent of US$ 1.9 per day (World Bank, 2018), and 736 million people in 2015 earned less than this amount (World Bank, 2018), the national poverty line (NPL) in Azerbaijan has been increasing, from US$ 25.2 per month in 2005 to US$ 87.39 per month in 2016. According to the latest available World Bank data on equal distribution of income in Azerbaijan (GINI index, 2013), the country's coefficient was 33.7. While this was better than the global average of 38.8, it's still higher than the coefficient of several other CIS countries (e.g. Belarus –25.4 in 2017, and Kazakhstan –27.5 in 2017) (The World Bank, 2017).

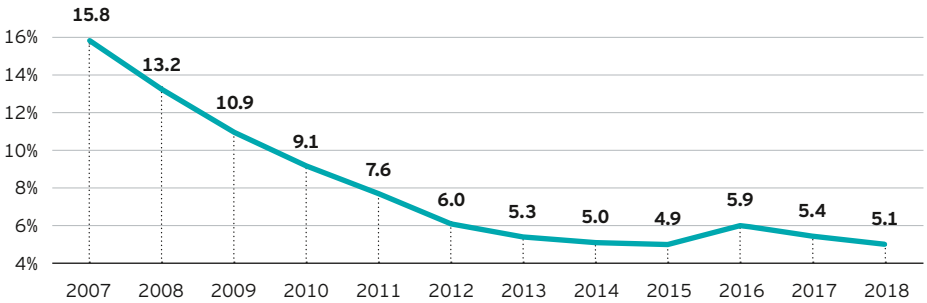
An essential tool for reducing poverty is social protection, which is also a fundamental human right. More than half of the global population (4 billion people) still have no access to even one social protection benefit, and 45% of the global population receive only one social protection benefit (ILO, 2018). Universal social protection is critical – it raises household incomes, consumption and savings, boosting aggregate demand, and enhances people's resilience in the face of disasters, such as those that may result from climate change.

FIGURE 9.
National Poverty Line of Azerbaijan between 2007-2018, in monetary value



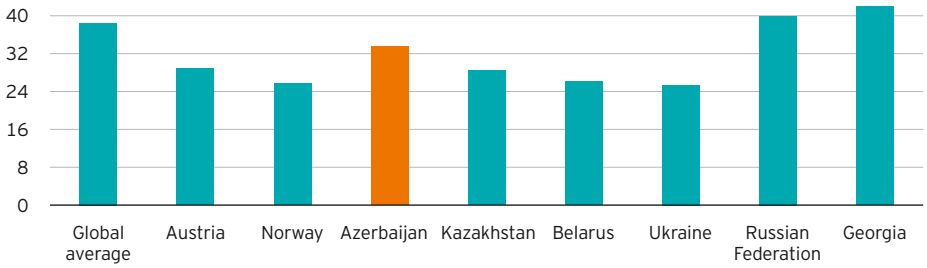
Source: The State Statistical Committee of Azerbaijan, 2019

FIGURE 10.
Poverty rate of population in Azerbaijan between 2007–2018, in percentage



Source: The State Statistical Committee of Azerbaijan, 2019

FIGURE 11.
GINI Index, 2013



Source: The World Bank Group, 2013

> According to the World Bank's Financial Inclusion Data — Global Findex (2018), only 29% of Azerbaijan's adult population had an account with a financial institution, compared with an average of more than 50% in Europe and Central Asia.

Possible Target Indicators for Azerbaijan for these SDGs

1. Population proportion living below National Poverty Line (NPL)
2. Population proportion covered by the minimal Social Protection system
3. Population proportion with legal access to property and land ownership
4. Proportion of budget expenditure on education, healthcare, social protection and social provision

FINANCIAL SERVICES SECTOR

What you can do:

- Implement programs and policies to end poverty in all its dimensions
- Provide affordable banking services for all, particularly in rural areas and for vulnerable groups of people
- Direct a share of resources into stimulating poverty eradication
- Use Payment Protection Insurance (PPI)
- Promote mobile banking
- Engage executive management in ESG topics

Targets you can achieve:

- Empower and promote economic inclusion of all
- Ensure that everyone has equal rights and access to financial resources
- Accelerate innovation and technology advancement
- Ensure ESG topics are reflected on the executive management agenda

Related KPIs:

- Number of commercial bank branches and automa ted teller machines per 100,000 adults
- Percentage of small-scale businesses with a loan or line of credit
- Financial Soundness Indicator (FSI)
- Proportion of adults with an account at a bank or other financial institution
- Financial literacy as a percentage of the population
- Number of board meetings where ESG topics were discussed

How can the sector help in achieving the targets?

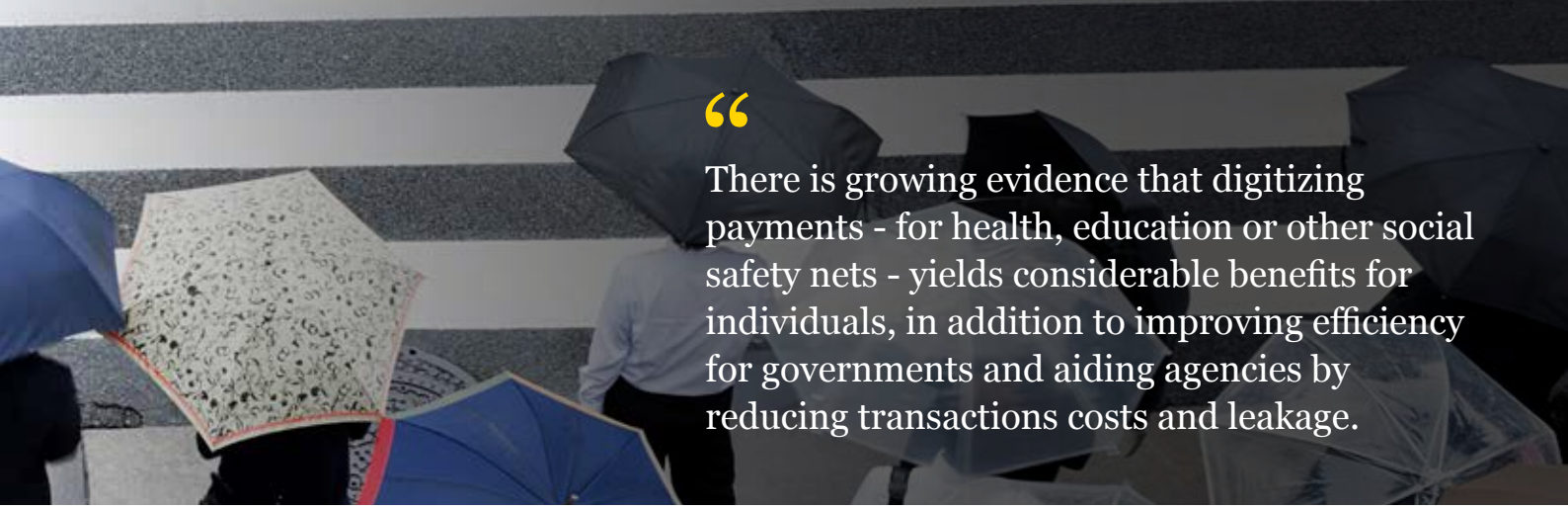
While **SDG 1** and **SDG 10** do not explicitly target financial inclusion, greater access to financial services is a key enabler for achieving them. Financial inclusion means that formal financial services – such as deposit and savings accounts, payment services, loans, and insurance – are readily available for all layers of society and that they are actively and effectively using these services to meet their specific needs (CGAP, 2017). There is academic evidence that financial inclusion models can support overall economic growth and the achievement of broader development goals. Digital finance alone could benefit millions of people by spurring inclusive growth that adds US$ 3.7 trillion to the GDP of emerging economies within a decade, according to a recent report by the McKinsey Global Institute (MGI, 2016). There is also growing evidence of financial inclusion creating more stable financial systems and economies, mobilizing domestic resources through national savings and helping to boost government revenue.

In Azerbaijan, general unavailability of medium to long-term capital creates a restriction on financing private businesses, since most of the banking products are short-term oriented. In addition, the credit supply is too small to provide a suitable environment for the development of small and medium-sized enterprises (SMEs). In reality, most SMEs have scarce opportunities to access affordable lines of credit given the collateral requirements and loan terms (International Trade Administration, 2016).

According to the World Bank's Financial Inclusion Data – Global Findex (2018), only 29% of Azerbaijan's adult population had an account with a financial institution, compared with an average of more than 50% in Europe and Central Asia. Therefore, in 2017, The World Bank Group launched a new advisory project in Azerbaijan to boost financial inclusion by improving access to digital financial services for individuals and small businesses, helping them grow and create jobs. The project, called Electronic & Digital Financial Services, is implemented by International Finance Corporation (IFC), a member of the World Bank Group. Over the next three years, the project helped to introduce modern e-banking services in the country, improving access to financial services for customers who find it difficult to access branch-based services. The project works with the country's government agencies, financial institutions, processing centers, mobile network operators and others to help customers use their mobile phones and online banking for transactions, including bill payments and money transfers. Overall, since Azerbaijan has been classified as upper middle-income country since 2014 (UNDP, 2014), it is now especially important for local financial institutions to mobilize their resources, since the portfolio of international donor organizations is limited for countries with middle or high income.

Although some steps have already been taken in the financial services sector in Azerbaijan and the Azerbaijan Micro-Finance Association has more than 30 members, mainly banks, that provide microfinance services in Baku and Azerbaijani regions, there is still a long way to go. There is an urgent need to improve microfinance and micro-insurance banking services to ensure financial inclusion of low-income individuals, internally displaced persons, refugees and small businesses.

There is growing evidence that digitizing payments — for health, education or other social safety nets — yields considerable benefits for individuals, in addition to improving efficiency for governments and aiding agencies by reducing transactions costs and leakage. In local financial services sector however, there is currently a gap in the development of innovative technologies such as digitization of payments, transfers and remittances, and mobile banking, that will facilitate access to financial operations for people living in remote regions and those who cannot access banking services and other institutions due to physical constraints. In general, the financial services sector can influence poverty through value-added resource allocation and the acceleration of innovation and technological development. Financial institutions play an intermediation role that mobilizes savings for investment purposes and provides efficient allocation of capital. The Poverty Probability Index can be used to identify people that live below the poverty line and develop customized financial products and programs to help improve their lives. The poverty level of these clients can be tracked for several years to understand the real benefits and drawbacks of the products or programs developed (Poverty Probability Index, n.d.). For this, more easily available socio-economic data should be monitored and analyzed by the organizations operating in the financial services sector. For example, by investigating the potential impact of the financial services sector on non-oil tradable sectors using aggregate data, financial institutions can obtain in-depth insight into the existing situation.

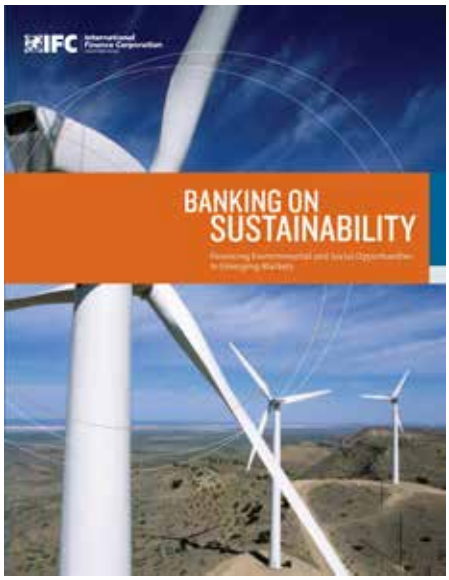


> There is growing evidence that digitizing payments - for health, education or other social safety nets - yields considerable benefits for individuals, in addition to improving efficiency for governments and aiding agencies by reducing transactions costs and leakage.

☆ BEST PRACTICE

- The World Bank, through the Social Safety Net Project that started in February 2016, has supported Madagascar in a period of severe drought by extending cash transfers and community nutrition services after the government announced a humanitarian emergency in the country as the population suffered from consecutive years of poor crop yields. The project seeks to enhance the access of extremely poor families to safety net services and build the foundations for a social protection system. As of 2017, over 350,000 people from 68,000 families had benefited from a US$ 35 million program delivering cash transfers, livelihood recovery grants, and nutrition services in affected areas (World Bank, 2018).
- ABN AMRO introduced Europe's first Social Impact Bond (SIB) in 2013 and has launched and invested in a number of SIBs over the last three years. The first SIB was created in Rotterdam, when the Start Foundation and ABN AMRO joined forces, both investing EUR 680,000 in the BuzinessClub – an organization aiming to help young people in Rotterdam who are on state benefit to find a job, enroll in training or start their own businesses. Participants work through an intensive process attending group training sessions and workshops, as well as doing work placement. They can also take advantage of an extensive network and receive personal coaching from professionals in the field (ABN AMRO, 2019).

YOUR LIBRARY



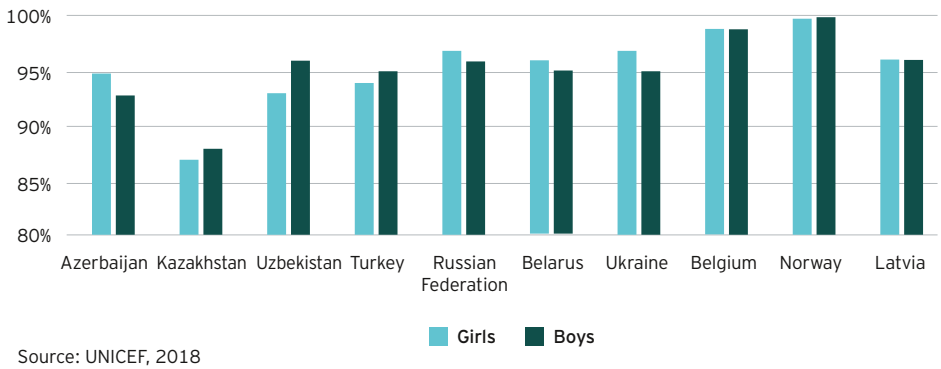
"Banking on Sustainability" report published by IFC is a practical tool for capacity-building and technical assistance on the social and environmental aspects of finance and investments in the emerging markets.

https://firstforsustainability.org/media/IFC%20Banking%20on%20Sustainability.pdf

According to Article 26 of the Universal Declaration of Human Rights adopted by the UN in 1948, education was officially acknowledged as a human right for the first time in history (UDHR, 1948). Since then education has been considered as the single most important factor in eradicating poverty and ensuring that individuals and communities acquire the knowledge and skills to enable sustainable social development. Yet, the world is facing a critically low level of investment in education. To reach **SDG 4** for an inclusive, equitable and quality education for all, global spending on education must rise annually from US$ 1.2 trillion per year to US$ 3 trillion by 2030 (UN, 2017).

In 2017, the primary school net enrollment ratio (the percentage of the total number of children of official primary school age enrolled in school) in Azerbaijan was 92.94% for boys and 94.69% for girls, demonstrating that 7% of boys and 5% of girls did not attend primary school (UNESCO, 2018). It should be noted, that in Kazakhstan, Kyrgyzstan, Uzbekistan and Turkey the net enrollment ratio is higher for boys, whereas in the Russian Federation, Belarus, Ukraine and Tajikistan it is higher for girls. Ideally, the ratio should be the same for girls and boys (like in Belgium, Norway or Latvia), whereas a difference demonstrates the presence of gender inequality in the country (UNICEF, 2016).

FIGURE 12.
Primary school net enrollment ratio in 2017, by countries



Source: UNICEF, 2018

> In some developing countries, households account for more than half of all education expenditure, compared to less than 15% in most developed countries.

Possible Target Indicators for Azerbaijan for this SDG

1. Proportion of the secondary education aged children who are literate
2. Proportion of the adult population participation in the vocational training and formal education, by gender
3. Percentage of adult population proficient in Information and Communication Technologies (ICT)

FINANCIAL SERVICES SECTOR

What you can do:

- Invest in equal education for girls and boys through community contribution programs
- Increase learning and development opportunities for employees
- Initiate financial education programs including vocational programs
- Engage executive management in ESG topics

Targets you can achieve:

- Ensure equal access to affordable and quality education
- Eliminate gender disparities in education
- Ensure education for children with disabilities
- Ensure ESG topics are reflected on the executive management agenda

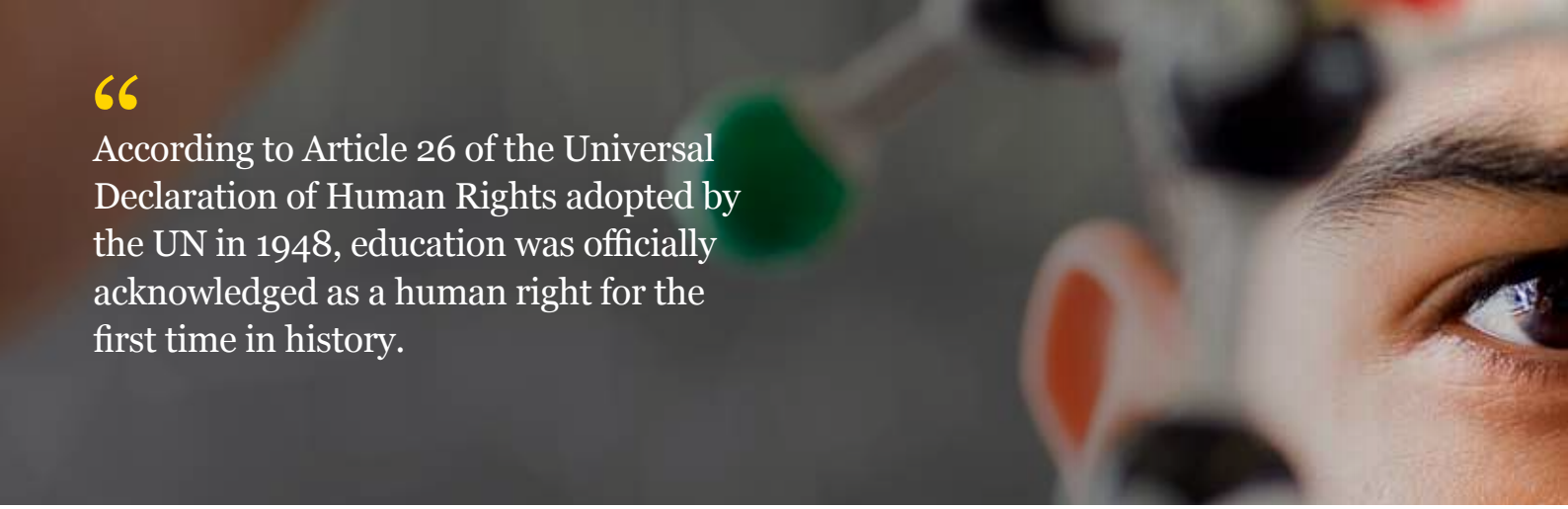
Related KPIs:

- Financial literacy as a percentage of the population
- Number of employee hours spent on learning and development, by sex
- Share of social impact investments in the portfolio
- Number of board meetings where ESG topics were discussed

How can the sector help in achieving the targets?

Domestic public finance is by far the most important source of funding, accounting for 79% of education spending globally. Poorer countries prioritize education more in their public expenditure, but this still translates into vastly smaller expenditure by student – less than US$ 200 annually per primary school student in low-income countries, compared to around US$ 8,000 in high-income countries (UN, 2019).

In response, households have to contribute a much larger share of education financing directly. In some developing countries, households account for more than half of all expenditure, compared to less than 15% in most developed countries. Overreliance on households raises equity concerns and lack of financial resources remains as the main barrier to sustainable education, specifically in developing nations. One of the main functions of the Bretton Woods

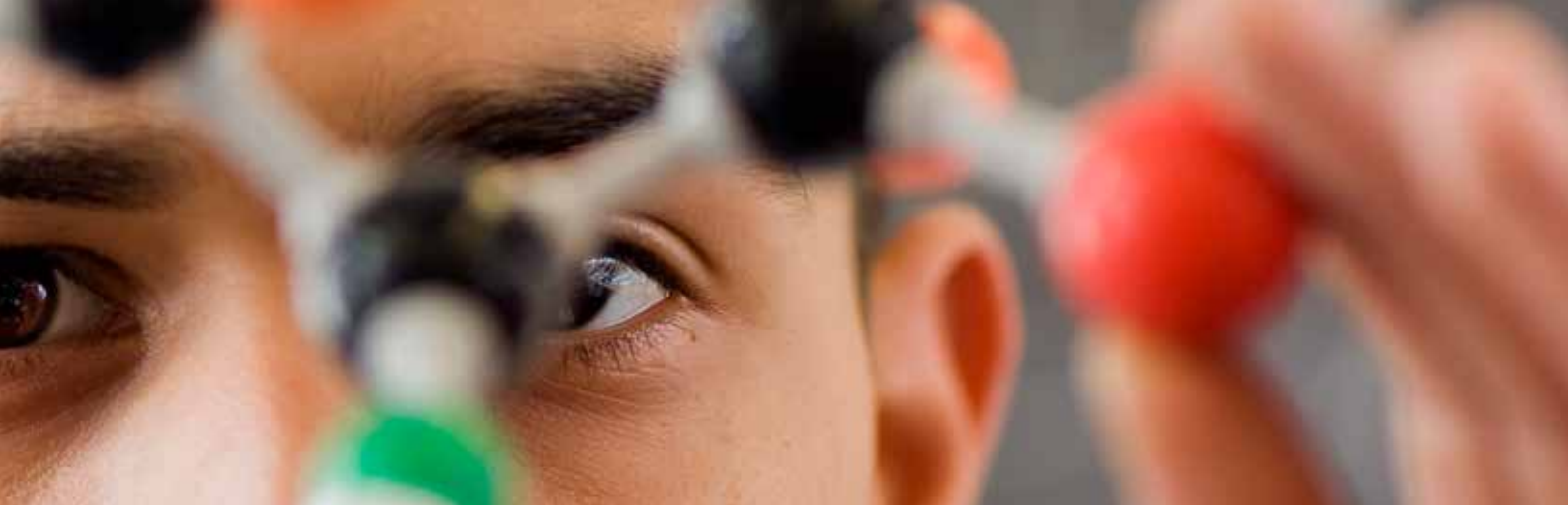


> According to Article 26 of the Universal Declaration of Human Rights adopted by the UN in 1948, education was officially acknowledged as a human right for the first time in history.

Institutions that were established in 1944 as autonomous Public International Institutions constituting Specialized Agencies of the United Nations, was to take a leadership role in eliminating financial barriers to building more comprehensive education policies (UN, 2015). Hence, financial institutions operating in Azerbaijan have the opportunity to realize their potential influence on education policies through financing. Financial institutions may also increase the population's financial literacy and provide opportunities for them through custom training programs not only in the capital Baku, but in the regions as well.

One of the most significant impact areas of the financial institutions as per **SDG 4** is the learning and development opportunities provided for the people employed in the sector. Employees who receive necessary training demonstrate greater understanding of their responsibilities within their role, which leads to an enhanced overall performance, which in its turn creates competition in the industry and benefits the economy as a whole.

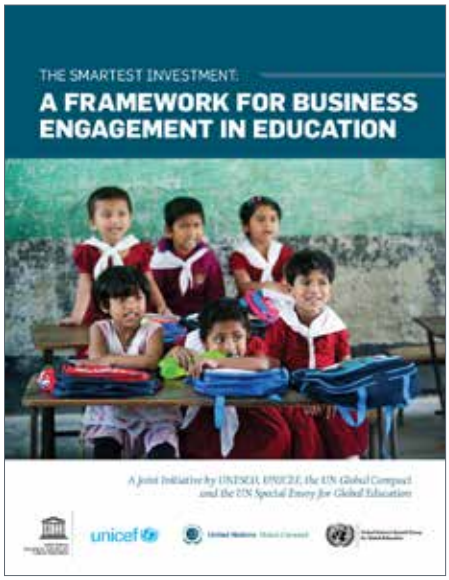
Provision of student loans in order to obtain higher education in Azerbaijan and abroad may also act as a significant tool to enhance quality education indicators in the country. Particular attention should be paid to the regions of the country where students may not realize the benefits of higher education, or due to economic constraints may not even consider higher education. Financial institutions may take a local leadership role by financing initiatives aimed at improving the schooling conditions, provision of new technologies or attraction of qualified teachers. This in its turn will contribute to promotion of quality education and subsequent boost in skilled employment, as well as scientific research.



BEST PRACTICE

- In 2006, Standard Chartered Bank developed a program aimed at empowering girls through sports and "life skills" program. They targeted 12-18-year-old girls from underprivileged families. The program includes classes on communication skills, health, human rights and financial education. By 2016, it had reached over 285,000 girls across 17 markets the bank operates in (Standard Chartered Bank, 2016).
- In 2014, Deutsche Bank launched its "Born to Be" initiative – a youth engagement program designed to target barriers that prevent young people from achieving their full potential – the skills gap between what schools teach and what employers want. The Bank's support ranges from funding innovative projects that develop employability skills to providing the Bank's employees as mentors to inspire young people and help build capacity in organizations, as well as advocacy efforts that aim to achieve sustainable change by working with policymakers. As of 2019, the program has helped change the lives of more than 4.4 million young people through over 180 education led-projects in 29 countries (Deutsche Bank, 2019).

YOUR LIBRARY



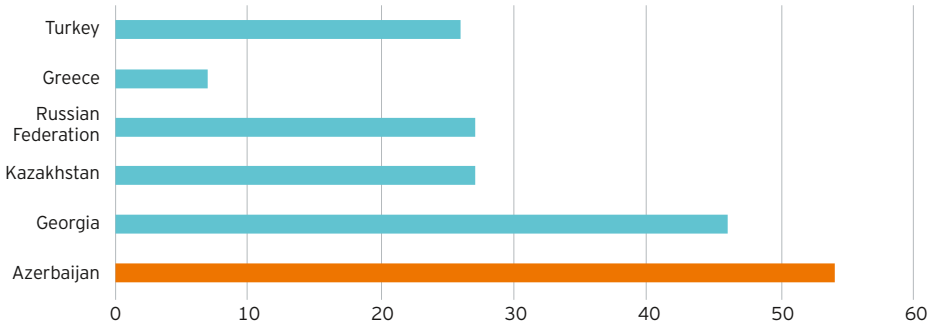
Business Education Framework is a "three-part process for engagement" that will help to align your business strategies with initiatives to support education. The five drivers presented demonstrate that smart engagement in education may be beneficial for businesses as well.

https://www.unglobalcompact.org/docs/issues_doc/development/Business_Education_Framework.pdf

Despite substantial progress having been achieved in eliminating gender discrimination in most parts of the world, inequality is still prevalent, and thousands of females still experience glass ceilings in their careers, as well as domestic abuse, forced marriages and obstacles to receive education. Currently, the number of girls that give birth at the age of 15-17 in Azerbaijan is decreasing, however, 2,129 girls gave birth at this age in 2018, 69% of whom lived in rural areas (The State Statistical Committee of Azerbaijan, 2019). According to the latest data of the World Bank Group (2018), the adolescent fertility rate in Azerbaijan in 2017 was 56 per thousand, which is higher than in Georgia (46), Kazakhstan (30), the Russian Federation (17) and even the global average of 42. Moreover, between 2010-2015 Azerbaijan had the second-highest imbalance in sex ratios at birth in the world – 111 boys per 100 girls (IndexMundi, 2018) – whereas the biological sex ratio at birth is 104-106 boys per 100 girls, demonstrating that selective abortions are often carried out in the country.

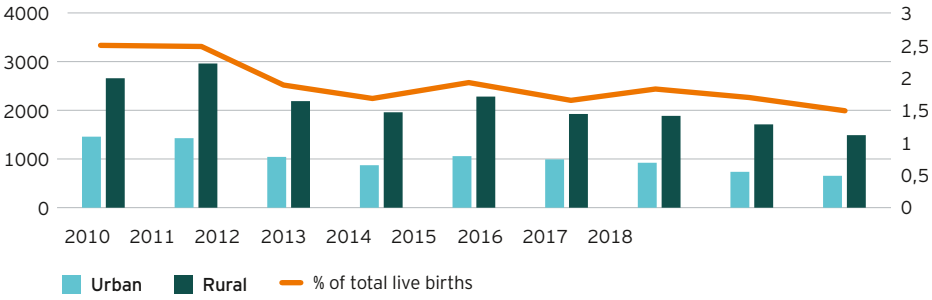
It should also be noted that the average monthly wage in 2018 was 670.2 AZN for men and 360.8 AZN for women, i.e. almost 50% lower (The State Statistical Committee of Azerbaijan, 2019).

FIGURE 13.
Number of births per 1,000 women aged 15-19 in Azerbaijan and other countries, in 2017



Source: The World Bank, 2018

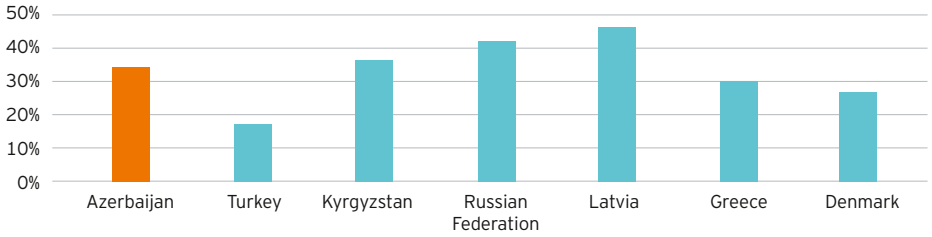
FIGURE 14.
Number of births among women aged 15-17 in Azerbaijan between 2010 and 2018



Source: The State Statistical Committee of Azerbaijan, 2019

> Between 2010-2015 Azerbaijan had the second-highest imbalance in sex ratios at birth in the world – 115.8 boys per 100 girls.

FIGURE 15.
Proportion of women in senior management positions by country in 2017, in percentage



Source: ILO, 2018

Possible Target Indicators for Azerbaijan for this SDG

1. Number of legislative acts and decrees stimulating gender equality and anti-discrimination
2. Proportion of women aged 15 and above subjected to domestic abuse by their partners
3. Percentage allocation of the unpaid household assistance performed by women, by age
4. Representation of females in the Parliament and local authoritative bodies, by percentage

FINANCIAL SERVICES SECTOR

What you can do:

- Develop women empowerment policy
- Introduce financial products for women with limited access to banking services
- Introduce special educational programs for women, particularly in rural areas
- Integrate women empowerment policies into core business operations and supply chain
- Eliminate gender-based pay gaps
- Adopt Gender Equality Seal*
- Engage executive management in ESG topics

Targets you can achieve:

- Ensure equality in the workplace
- Provide women with equal rights to economic resources
- End all forms of discrimination against women
- Ensure gender equality in the supply chain
- Ensure women's full and effective participation and equal opportunities for leadership
- Ensure ESG topics are reflected on the executive management agenda

Related KPIs:

- Share of women-owned businesses in the loan portfolio
- Proportion of women in managerial positions
- Number of policies and principles regarding women empowerment
- Ratio of entry-level wages for female and male employees
- Number of employee hours spent on learning and development, by sex
- Number of suppliers assessed for social impacts, including gender equality
- Proportion of female adults with an account at a bank or other financial institution
- Number of board meetings where ESG topics were discussed

* The UNDP Gender Equality Seal is a certification program that provides incentives for businesses to integrate gender equality into all aspects of their operations (UNDP, 2017).

> In 2018, women made up 48% of entry-level employees, but only 38% of middle managers, 34% of senior managers or directors and 22% of C-suite executives globally.

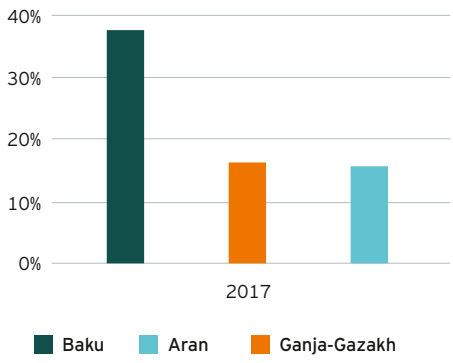
How can the sector help in achieving the targets?

Women are underrepresented at all levels of the financial system, from depositors and borrowers to board members and regulators. Greater inclusion of women as users, providers, and regulators of financial services would have benefits beyond addressing gender inequality. Narrowing the gender gap would foster greater stability in the banking system and enhance economic growth. It could also contribute to more effective monetary and fiscal policy.

A good starting point is inside the organizations for encouraging adequate female representation in leadership, as well as promoting gender equality across all structural layers. In 2018, women made up 48% of entry-level employees, but only 38% of middle managers, 34% of senior managers or directors and 22% of C-suite executives globally (WIWC, 2018). This means increasing gender diversity at the workplace should be set as a consistent target until gender parity is reached. Instituting women's initiatives to accommodate women, such as flexibility, parental leave policies and equal pay, are becoming the norms of modern workplaces.

Financial institutions may also empower girls and women by organizing seminars or workshops for them, consulting them on how to be successful across industries and presenting role models from real business cases. If we look at the regional distribution of entrepreneurs by gender, the share of women entrepreneurs in Baku (37.5%) and in the economic regions of Aran (16.7%) and Ganja-Gazakh (15.7%) is higher than the country average (UNDP, 2018).

FIGURE 16.
Share of women entrepreneurs in major economic areas of Azerbaijan, in percentage



Source: ILO, 2018

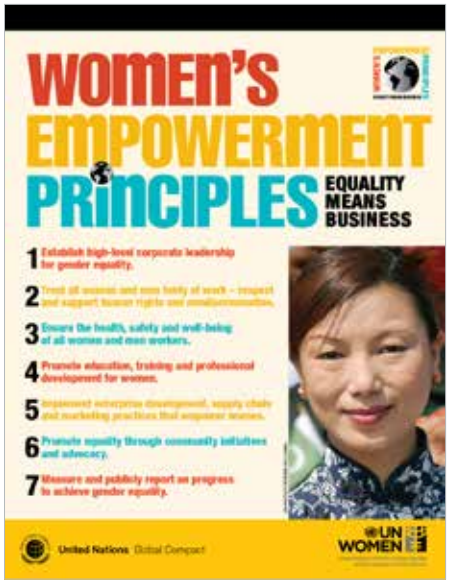
The number of women entrepreneurs has increased in recent years, and the development of female entrepreneurship has proven to reduce poverty, provide employment and, in most cases, eliminate gender inequality. Like with any business activity, the enhancement of female entrepreneurship requires obtaining necessary financial resources and financial literacy. Analyzing the interrelation between financial services and gender balance, a clear link with **SDG 4** can be observed – it is evident that a low level of education among girls and women is the main reason for early marriages and childbirth. Therefore, in addition to the solutions described in **SDG 4**, financial institutions may contribute to dismantling the stereotype that women are less successful in business than men and can provide female entrepreneurs with special loans and training programs on how they can better manage their businesses. Collaboration with educational institutions can also be established to develop special programs for girls to develop their professional knowledge in specific areas. In addition, banks could expand their financial products portfolio for women who have limited access to banking services due to household responsibilities. Moreover, financial institutions can initiate seminars led by women in managerial positions for female employees on how to sustain a work-life balance, how to build a career path, and so on.

At macro level, advancing women's equality can trigger substantial boost of the national economy, and at micro level, gender equality in decision-making positions improves the company's bottom line. Other benefits include access to a wider talent pool, more innovation, an enhanced connection to customers, and a greater integration of social and environmental factors into strategic decisions.

BEST PRACTICE

- The Azerbaijan Micro-Finance Association in cooperation with Microfinance Centre started a project in 2014 called "Building female professionals and promoting the development of women entrepreneurship in rural regions of Azerbaijan" in 8 rural regions in the country. As of 2016, the project had aided nearly 2,000 women by providing training in financial skills and how to run businesses effectively, as well as vocational training for future loan officers (EU, Microfinance Centre, Azerbaijan Microfinance Association, 2016).
- Starting from 2015 one of the biggest banks of the Netherlands, ABN AMRO, launched the "New Life Balance" program, offering contributions to employees' childcare arrangements. Both male and female employees can now apply for financial support for the costs of day-care, nannies, or out of school care. In cases of overtime, the Bank pays all the costs involved with childcare arrangement. The program has been received highly positively by the employees of the Bank and has been instrumental in reducing the turnover rate of female employees in senior positions (ABN AMRO, 2018).

YOUR LIBRARY



To better understand what your company could do to ensure gender equality and how it should be measured, get acquainted with "Women's Empowerment Principles" prepared by UN Women and UN Global Compact Office.

https://www.unglobalcompact.org/docs/issues_doc/human_rights/Resources/WEP_EMB_Booklet.pdf

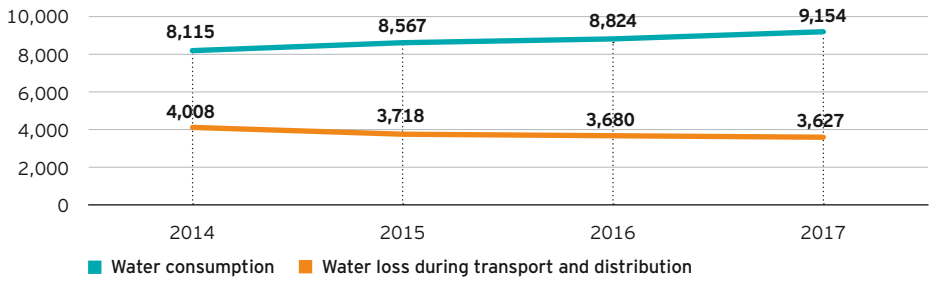
6 CLEAN WATER AND SANITATION

Since water is the most important resource for the Earth's inhabitants, impacting human well-being, the provision of clean water and satisfactory sanitation conditions for all, has been made into a separate Goal. Although the vast majority of the planet's surface consists of water, 97.5% of this water is saltwater, while freshwater necessary for human life accounts for only 2.5% of the aggregate amount of water on Earth (FAO, 2018). Of this relatively small fraction, main share is in the form of ice and snow accounting for 68.6%, followed by groundwater resources with 30.1%, leaving only 1.3% being surface water and other forms of freshwater available for human use (IAEA, 2011). In Azerbaijan, consumption by sectors shows that water consumption for agriculture and irrigation purposes constituted nearly 72% in 2017, and it has been showing a growing trend since 2014. Industrial use of water resources has also increased from 2,144 million m³ in 2014 to 2,224 million m³ in 2017 (AHK & GTAI, 2019).

Additionally, population growth stimulates water scarcity as well. According to the 2019 Revision of the World Population Prospects (UN, 2019), the world population of 7.7 billion will reach 8.5 billion by 2030, 9.7 billion by 2050 and 10.9 billion by 2100. With about 83 million people being added to the total populace each year, it is certain that the upward pattern in population numbers will continue, notwithstanding the fact that fertility levels will continue to decline (UN, 2018). A growing population will require more food, which in turn will require more water consumption.

FIGURE 17.

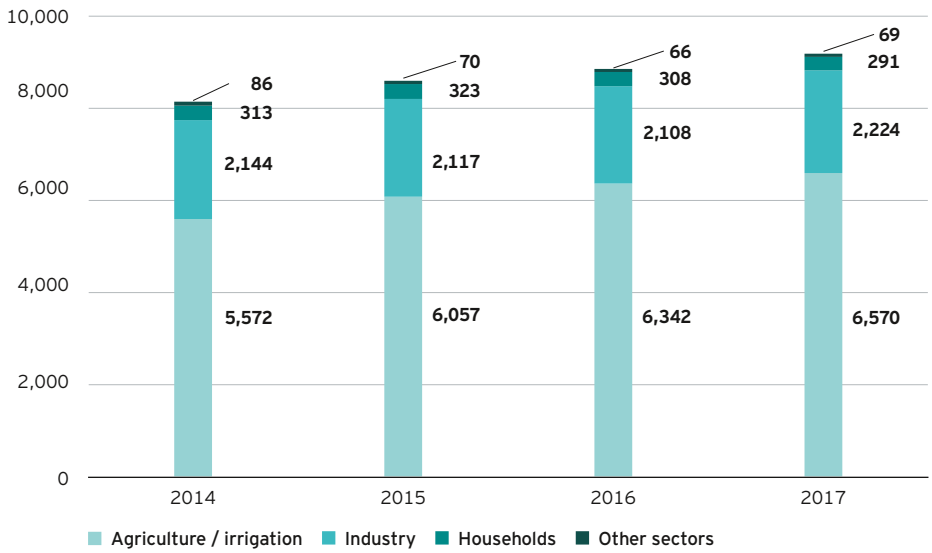
Water consumption and water loss during transport and distribution in Azerbaijan between 2010–2017, in million m³



Source: State Statistical Committee of Azerbaijan, 2018

FIGURE 18.

Water consumption by sectors in Azerbaijan, in million m³



Source: State Statistical Committee of Azerbaijan, 2018

> Azerbaijan is expected to be one of the 13 countries in 2025 with the fewest water resources per individual (~972 m³/year) as indicated by the estimates of the World Water Resources Institute. Average yearly water scarcity has been ascertained as 3.7 km³ in Azerbaijan, and 4.75 km³ during dry periods.

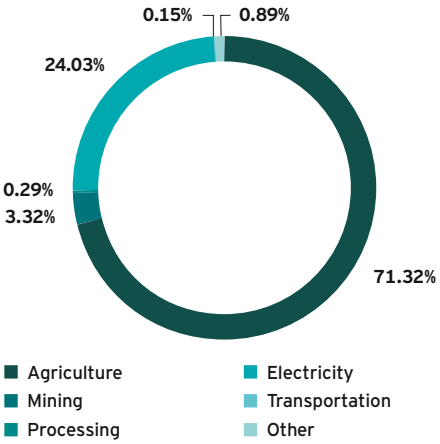
Surface water resources are anticipated to be diminished by more than 23% by 2050, due to changes in the atmosphere (Ministry of Ecology and Natural Resources of Azerbaijan, 2010). Reliance of local nations on transboundary waters is 76.6% in Azerbaijan, which is significantly higher than other countries in the region. Consequently, Azerbaijan faces the greatest water shortage threat in the Southern Caucasus (Center for Strategic Studies under the President of Azerbaijan, 2014). In addition to this, the water assets of the Kura and Aras streams, which flow from neighboring countries, are diminished by approximately 20% as an aftereffect of water consumption (Ministry of Ecology and Natural Resources, 2012). This in its turn leads to an even more severe water shortfall in the country (about 4 to 6 km³ each year) and creates challenges for meeting the water demand of the local population.

Like other South Caucasus countries, Azerbaijan is also extremely vulnerable to climate change and its consequences. Based on the research conducted by Zoi Environment (2011), an analysis of the data from 1991 to 2000 captured an increase of 0.41˚C which was more than an increase detected for the period of 1961–1990. Furthermore, there was also a decline in precipitation by 9.9% over the past ten years of the research study period along with the change in snow cover extent. It is crucial to highlight the fact that all these natural factors play an essential role for available water resources, and changes in any of these factors threaten available freshwater supply by challenging the country's water security. In addition to this, available water resources are further pressured by the increase in water consumption caused by increasing population.

According to data provided by FAO (2016), 87% of the population in Azerbaijan had access to improved water sources in 2015, which is lower than in other countries in the region. On the other hand, the rate of improved sanitation facilities in the country was 89%, which is higher than the global average. For comparison, access to improved water sources was 100% in Turkey and Georgia, while access to improved sanitation facilities was more than 95% in Ukraine and Kazakhstan.

Nevertheless, only 17% of the country's generated wastewater underwent treatment in 2016 (State Statistical Committee of Azerbaijan, 2017), which can significantly damage water sources such as the Caspian Sea, and hence negatively affect public health. For comparison, more than 87% and 96% of wastewater in Austria (Federal Ministry of Austria for Agriculture, Forestry, Environment and Water Management, 2017) and Germany (Federal Ministry of Germany for the Environment, Nature Conservation and Nuclear Safety, 2017), respectively, is not discharged without treatment.

FIGURE 19.
Freshwater withdrawal in Azerbaijan by sources in 2017, in percentage



Source: The State Statistical Committee of Azerbaijan, 2018

Despite the fact that there has been a stable increase in the percentage of the population with access to clean water and sanitation, there is still an urgent need for further action as rapidly decreasing water resources will definitively generate serious socio-economic problems in the long-run.

Possible Target Indicators for Azerbaijan for this SDG

1. Proportion of population using safely managed drinking water services
2. Proportion of population using safely managed sanitation services
3. Proportion of water bodies with good ambient water quality
4. Freshwater withdrawal as a proportion of available freshwater resources

FINANCIAL SERVICES SECTOR

What you can do:

- Build partnerships to accelerate sustainable water infrastructure
- Increase capacity-building regarding impact of the financial services sector on water sustainability
- Facilitate or stimulate pilot loans for water sustainability
- Liberalize investment conditions for institutional and commercial investors
- Utilize micro and blended finance options for SMEs and start-ups
- Engage executive management in ESG topics

Targets you can achieve:

- Ensure sustainable water consumption and irrigation practices
- Close the financial gap for water and sanitation to achieve universal, sustainable, and equitable access to water and sanitation
- Achieve water sustainability in the value chain
- Ensure ESG topics are on the executive management agenda

Related KPIs:

- Share of conservation finance projects in the investment portfolio
- Share of environmental impact investments in the portfolio
- Number of water sustainability and water efficiency initiatives conducted per year
- Percentage of small-scale businesses and start-ups with a loan or line of credit
- Number of suppliers assessed for environmental impacts
- Number of board meetings where ESG topics were discussed

How can the sector help in achieving the targets?

The latest World Bank estimates indicate that achieving universal access to safely managed water and sanitation would cost approximately US$ 114 billion per year for capital expenditure – an amount that is three times the current investment levels. The costs for sustaining universal coverage and maintaining the infrastructure, a recurrent expenditure, will exceed the annual capital cost requirements by approximately 1.5 times (World Bank, 2017). These estimates do not include climate resilient technologies or the costs to reach more ambitious targets under **Goal 6**, which are relevant for middle- and higher-income countries. These include improving water quality and halving the proportion of untreated wastewater, increasing water efficiency, and protecting and restoring water-related ecosystems. If we take into account all targets under **Goal 6**, continued investment at the current levels will make achieving **SDG 6** by 2030 nearly impossible.

As water sector is capital intensive, however, by mobilizing financing, actors can repay over time. For instance, once the infrastructure has been built, it starts to deliver service and generate revenues, and ultimately repay the investors who financed building the infrastructure. Reliance on government lending alone cannot be sustainable in the long run and therefore must be reduced, while financing from private and commercial sources must be stimulated, particularly in the form of "blended finance".

> 80% of countries report insufficient financing to meet national Water, Sanitation and Hygiene targets, let alone the higher levels of service that are the focus of SDG 6.

As more capital infrastructure is constructed to meet the ambitious 2030 target of universal access, there will be increased maintenance costs for the recently-constructed as well as pre-existing, aging infrastructure. For maintenance investments to have their intended impact, the systems and institutions that are charged with operating them need to have adequate resources – human as well as technological.

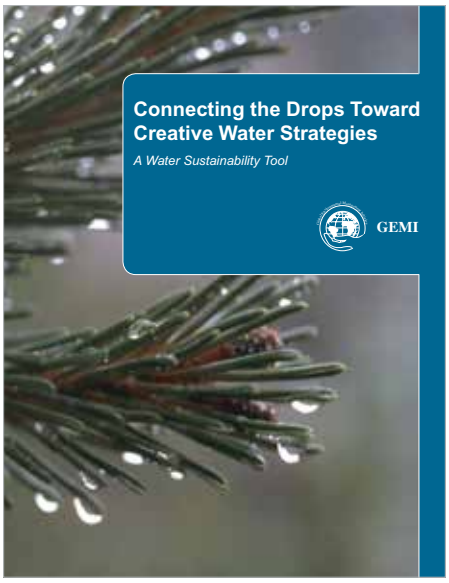
Effective investment in local systems, or the enabling environment, includes direct support for rural water service providers to help them deliver, maintain, monitor, grow and improve water and sanitation services as well as indirect support for local, regional and national level planning and policy-making, budgeting, regulation and discharge of other sector roles. Promoting water sustainability across the supply chain, which is one of the biggest change instruments at the disposal of financial institutions, is another foolproof method for achieving tangible results.

Effective financing for drinking-water, sanitation and hygiene (WASH) is also highly essential to sustain and deliver services. WASH expenditure represents the share of spending from the budget on the improvement of water and sanitation system, as well as capital, and operation and maintenance (O&M) expenditures. Among the twenty-five countries that were able to provide WASH expenditures, in Azerbaijan total WASH expenditure constitutes only 0.97% of GDP or US$ 35 per capita (World Health Organization, 2015). Less WASH expenditure means more reliance on external aid.

☆ BEST PRACTICES

- In 2016, Millennium Challenge Corporation (MCC) together with the Government of Jordan implemented a comprehensive program to provide Zarqa – the rapidly growing 2nd largest city of Jordan, which is one of the most water-stressed countries in the world, with water. MCC's grant funds leveraged private financing and other institutional funding. It particularly focused on increasing the reusability of wastewater and reduction of non-revenue water (NRW). The investments were both public and blended – MCC (US$ 97 million), private lenders (US$ 146 million), and sponsor equities (US$ 8.5 million). As a result, 1,160 kilometers of new water and wastewater pipelines were constructed that brought water to more citizens and businesses in Zarqa, while at the same time reduced water loss from leaky pipes. The wastewater network expansion increased the access of 55,000 people to wastewater system, collecting more wastewater for treatment. Most importantly, the project also helped to increase the participation of communities in water reservation and planning (MCC, 2018).

YOUR LIBRARY



The Water Sustainability Tool will help you understand water challenges that may arise in your operations and value chain and develop a corporate water strategy.

http://gemi.org/resources/ConnectingTheDrops.pdf

The case studies highlighted in the document will help to understand the role of blended finance for water investment, which could ultimately help close the financial gap for water sustainability in line with **SDG 6** ambitions.

http://oecd.org/water/OECD-GIZ-Outcomes.pdf

The document by the World Bank Group named "Achieving Universal Access to Water and Sanitation by 2030" emphasizes the role of blended finance, while at the same time brings forward the potential actors in the financial sectors that can contribute to the development of clean water and sanitation systems.

http://documents.worldbank.org/curated/en/978521472029369304/pdf/Achieving-universal-access-to-water-and-sanitation-by-2030-the-role-of-blended-finance.pdf

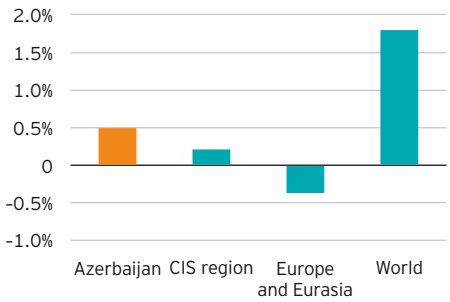
This Goal is aimed at providing access to clean and sustainable energy for everyone and shifting from traditional to alternative energy sources. There is strong evidence to suggest a direct correlation between residential energy consumption and life expectancy (Science for Environment Policy, European Commission, 2015). Nevertheless, more than 10% of the world's population live without power, while clean cooking facilities are not available to almost 3 billion people who use solid biomass or kerosene (UN, 2019). In Azerbaijan, 100% of the population has had access to electricity since 2010, and, according to the latest available statistics, for 2016, 96% of the population has access to clean fuels for cooking, with the rest of the population residing in rural regions close to the borders under territorial dispute (World Bank, 2017). However, energy in the context of sustainability means energy available to all, and with minimal GHG emissions, therefore the source of electricity in Azerbaijan poses a question whether 100% access to electricity could still be considered sustainable.

Primary energy consumption has grown on average by 0.5% per year in Azerbaijan since 2005, whereas in the CIS region overall it has grown by 0.2%, in Europe and Eurasia it has declined by 0.4%, but worldwide it has increased by 1.8% (BP, 2017). If population growth and progress in the developing countries are added to the equation, energy demand is projected to grow by 28% by 2040 (U.S. Energy Information Administration, 2017). Consequently, to meet increasing energy demand without exceeding permissible levels of CO_2 emissions, alternative energy sources, as well as energy efficient practices should be explored.

According to the International Energy Agency (2017), the fastest growing source of energy is renewables, and it is expected that by 2030 more than 60% of energy worldwide will be supplied by alternative energy sources. However, although in 2016, 24% of electricity globally, 55% in Latin America, and 17% in the CIS region was generated from renewable sources, in Azerbaijan only 9% of electricity was produced from hydro, solar, wind power and waste incineration despite the State Program on the Use of Alternative and Renewable Energy Sources (State Agency on Alternative and Renewable Energy Sources, 2016).

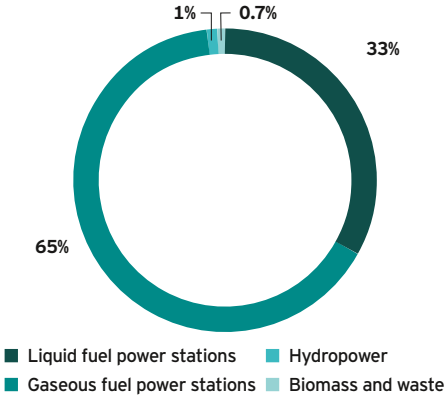
A successful example of promoting the use of alternative energy is the EU's Renewable Energy Directive (effective since 2009), which requires countries to generate at least 20% of energy from renewable sources and ensure that at least 10% of transportation fuel does not come from fossil fuels by 2020 (Renewable Energy Directive, European Commission, 2009). According to the latest progress report, the share of alternative energy sources in total energy consumption was around 17.5% in 2017, and 7.6% of energy used in transport activities came from renewable sources (Progress Reports, European Commission, 2018).

FIGURE 20.
Growth rate of annual primary energy consumption in Azerbaijan and other regions between 2006-2016, in percentage



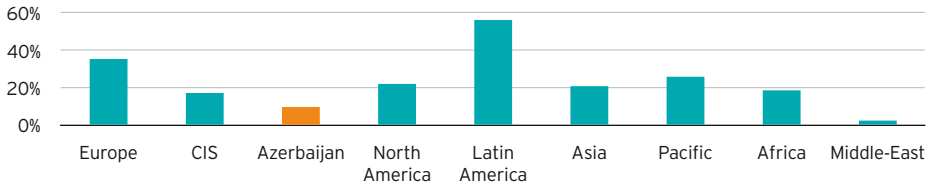
Source: BP, 2017

FIGURE 21.
Electricity generation by sources in Azerbaijan in 2017, in percentage



Source: The State Statistical Committee of Azerbaijan, 2018

FIGURE 22.
Share of electricity generated from renewable sources in 2016, in percentage



Source: International Energy Agency, 2017; The State Statistical Committee of Azerbaijan, 2017

Possible Target Indicators for Azerbaijan for this SDG

1. Proportion of the population with access to clean energy
2. Ratio of energy consumption to GDP
3. Ratio of alternative or renewable energy consumption in total energy consumption

FINANCIAL SERVICES SECTOR

What you can do:

- Support SMEs and start-ups in the renewable and clean energy sector
- Enhance international cooperation to facilitate access to clean energy research and technology
- Include ESG and energy efficiency criteria in due diligence processes for loans and investment
- Apply energy efficiency practices internally and in the supply chain
- Engage executive management in ESG topics

Targets you can achieve:

- Ensure energy efficiency in the value chain
- Promote universal access to modern energy services
- Accelerate transition to renewable energy
- Ensure ESG topics are reflected on the executive management agenda

Related KPIs:

- Energy efficiency and renewable energy projects share in the product portfolio
- Share of environmental impact investments in the portfolio
- Return on Climate Change investment
- Carbon footprint reduction in the investment/loan portfolio
- Reduced energy intensity/energy consumption in the investment/loan portfolio
- Number of suppliers assessed for environmental impacts
- Number of board meetings where ESG topics are discussed

How can the sector help in achieving the targets?

It is crucial to create an environment where the necessary programs and initiatives are developed to achieve universal access to modern energy services and the role of financial institutions should not be undermined, as the process requires substantial investment.

Although in 2017, 2% of the global GDP was spent in the energy sector, a decrease of 11% compared to 2016 (IEA, 2018), investments in energy efficient practices rose by 13%, whereas oil and gas investments dropped by 28%, demonstrating a positive shift towards sustainable energy. According to Energy Access Outlook (2017), meeting **SDG 7**, i.e. providing electricity for all by 2030, would require annual investment of US$ 52 billion per year. However, this amount incorporates only the expansion of grid electrification and the development of mini-grid and off-grid solutions in rural areas. That implies investment trade-offs, as providing energy access through conventional ways might be carbon intensive, requiring more innovative solutions such as renewable energy, and, consequently, more investment.

Regulatory responses to emissions challenges may also have an impact

on energy costs and could especially affect balance sheets in carbon-intense economies. In some industries, particularly those that are currently heavily invested in traditional modes of power, the changeover to renewables will require significant capital expenditures, at least at the start. Energy systems will increasingly take on aspects of networked economies, and the possibilities for value creation across the energy spectrum will be significant.

However, considering the steadily increasing national debt, attracting external financial resources as a long-term loan might not be the best solution to the problem. Therefore, financial institutions should cooperate with the government and other investors to raise financial grants and FDI rather than loans from international financial institutions.

Financial institutions can also participate in consortiums dedicated to renewable energy and invest in start-ups that promote the utilization of clean energy in the country, thereby increasing the share of sustainable and green businesses in investment and loan portfolios. The construction of renewable and clean energy farms or generators should also be supported by allocation of funds for these projects and the development of investment programs.

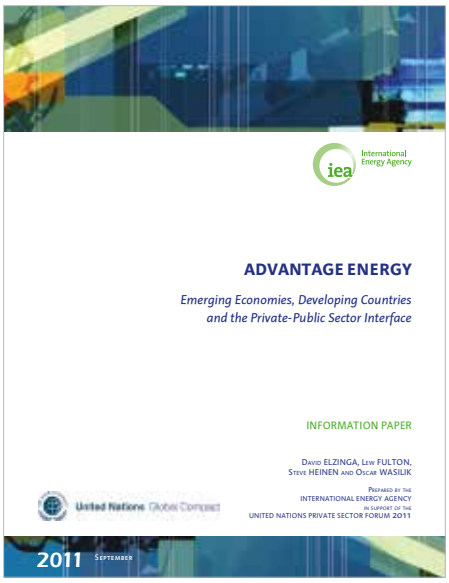
Supply chain management for improved energy efficiency is another significant way through which financial institutions can impact this Goal. Educational initiatives on energy efficiency and renewable energy for small-scale and local suppliers is a crucial tool for promoting the transition to clean energy.

In addition to transforming the product portfolio and the supply chain, financial institutions can reap benefits from introducing energy efficiency measures internally. Precisely because energy costs can comprise a significant share of total expenses in a variety of business models, energy savings often have an outsized effect on the bottom line. This incents implementation of efficiency measures and makes it likely that large-scale improvements will come faster. Government-mandated standards and regulations will also help accelerate adoption and enforce switching to alternative sources of energy. Efficiency investments that are more quickly implementable, such as lighting and improved heating, ventilation, and air-conditioning systems, may be mobilized first. Yet even projects with longer payback times and more expensive efforts, such as significant decarbonization initiatives, will eventually prove a net positive for value creation.

☆ BEST PRACTICES

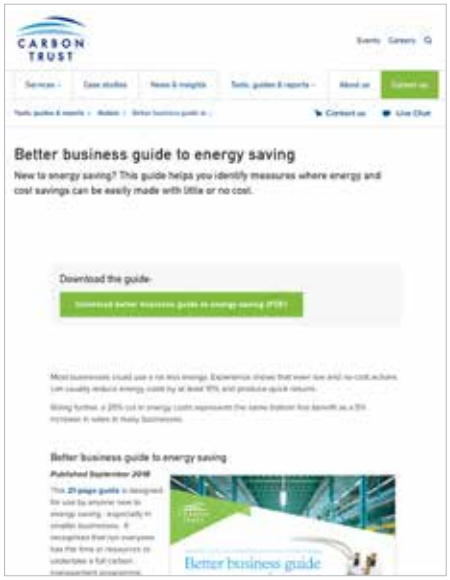
- One of the leading world banks, Citi, started the Environmental Finance Initiative, which is aimed at investing US$ 100 billion in ten years in projects that apply environmental and sustainable practices. Special attention is paid to projects on renewable energy and energy efficiency. By supporting renewable energy activities, the bank decreased potential CO_2 emissions by more than 3 million metric tons in its investment portfolio (Citibank, 2017).

YOUR LIBRARY



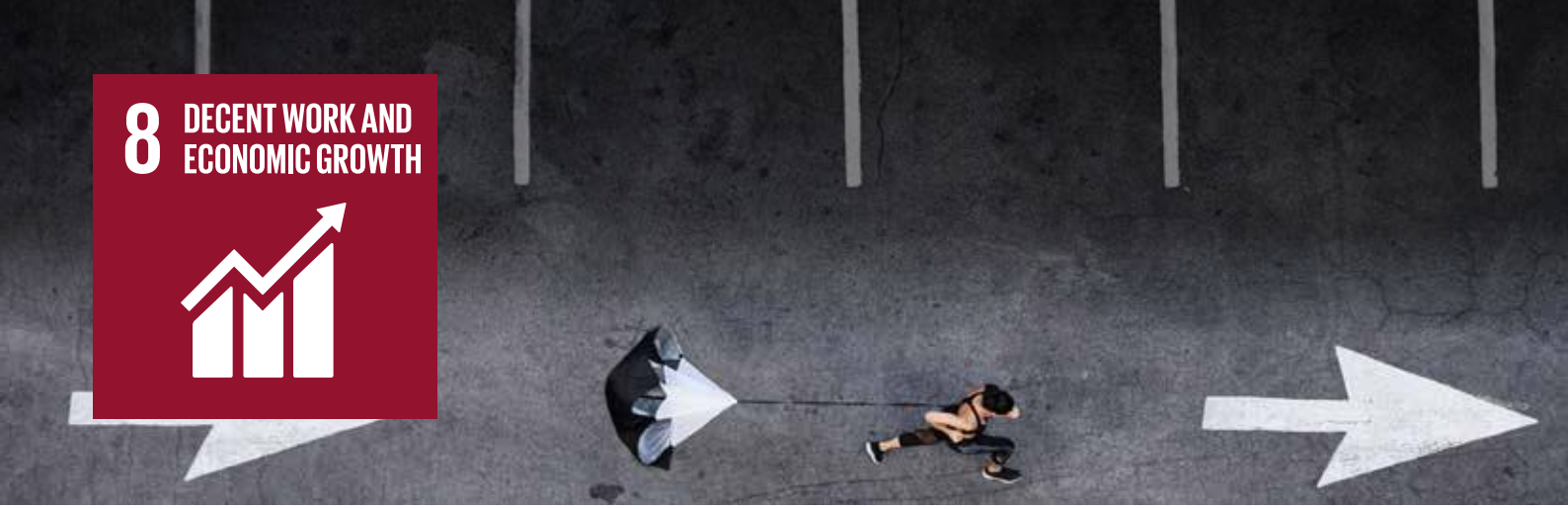
This paper examines the global energy system by breaking it into three subsystems: heat energy, electricity and transportation. This perspective provides a means to articulate the differences and similarities between the private and public investments needed by each subsystem.

https://www.unglobalcompact.org/docs/publications/Advantage_Energy.pdf



The "Better Business Guide to Energy Saving" is designed for use by any business new to energy saving. It recognizes that not every business has the time or resources to undertake a full carbon management program, and therefore identifies simple measures where energy and cost savings can be made easily with little or no cost.

https://www.carbontrust.com/resources/guides/energy-efficiency/better-business-guide-to-energy-saving



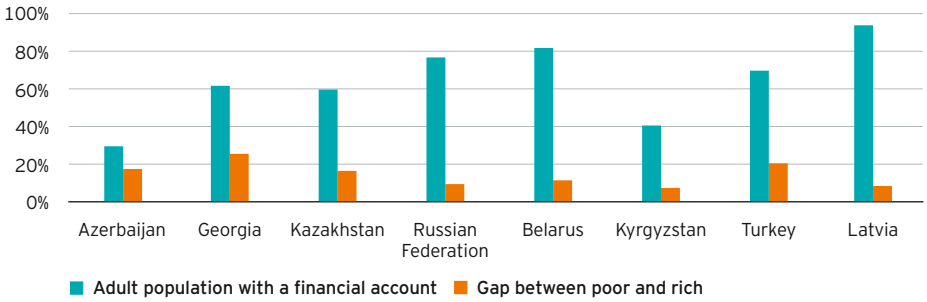
One of the goals of the 2030 Agenda is to achieve sustainable and inclusive economic growth, ensure that workplaces are safe and secure, and provide productive employment regardless of gender, age or physical ability.

According to the ILO Global Wage Report (2018/19), average economic growth in the CIS region fell from 4.7% in 2010 to 2.1% in 2017, whereas inflation decreased from 7.2% to 5.5%.

The Azerbaijani currency suffered major devaluations twice in 2015, which had a significant impact on employment and the availability of decent work in the country. The lowest level of unemployment in Azerbaijan was registered in 2014 at 4.9% and has remained stable until present (The State Statistical Committee of Azerbaijan, 2019), while the global and EU unemployment rates were 5% and 6.6%, respectively (ILOSTAT, 2019). It should be noted however, that these statistics do not capture the full picture, since some people considered as unemployed are in fact engaged in small private businesses informally. Informal employment implies low earnings and poor working conditions, especially for women – which leads to serious gender inequality in the country. According to the latest World Bank Group data, only 29% of Azerbaijan's adult population had an account with a financial institution in 2017 (the gap between poor and rich is 17 percentage points), demonstrating a low level of financial inclusion in the country (World Bank Group, 2018).

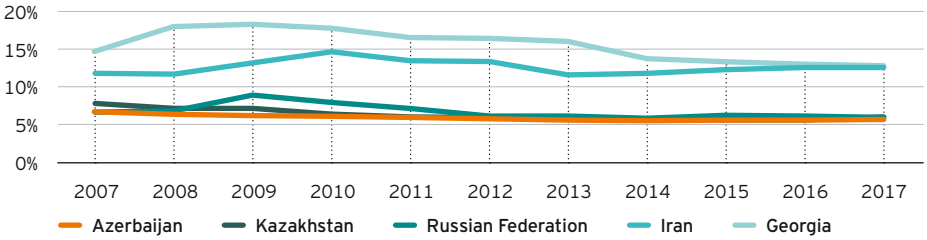
Generally, people with bank accounts are more likely to start businesses and improve existing ones, be aware of financial products and be prepared for economic changes. For comparison, in Georgia the level was 61%, in Kazakhstan it was 59% and in the Russian Federation it was 76%, whereas in Scandinavian countries it was 100% (World Bank, 2018).

FIGURE 23.
Share of adult population with an account at a financial institution and gap between poor and rich in 2017, in percentage

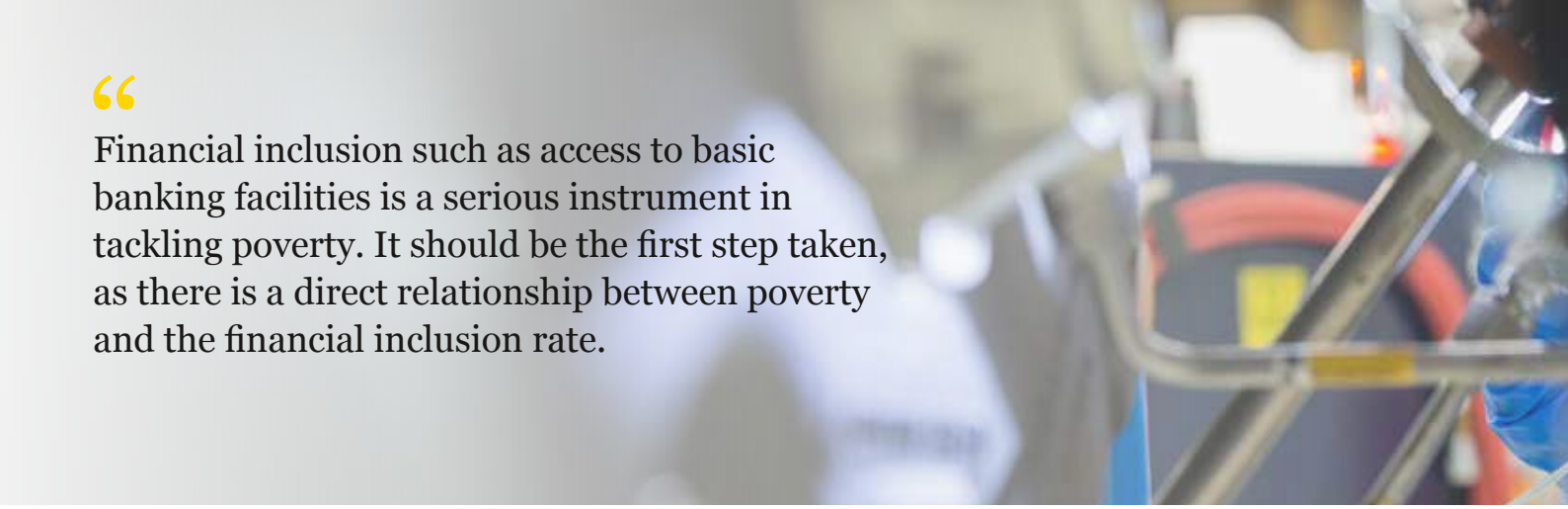


Source: The World Bank Group, 2018

FIGURE 24.
Unemployment rate as a share of the total labor force between 2007-2017, in percentage



Source: ILOSTAT, 2018



> Financial inclusion such as access to basic banking facilities is a serious instrument in tackling poverty. It should be the first step taken, as there is a direct relationship between poverty and the financial inclusion rate.

Possible Target Indicators for Azerbaijan for this SDG

1. Growth of GDP per capita
2. Growth of GDP per capita for each employed person
3. Unemployment rate per industry, by gender
4. Average wage by age, by gender and by physical disability

FINANCIAL SERVICES SECTOR

What you can do:

- Provide lower interest rates for SMEs and start-ups
- Promote development-oriented policies that support production and decent job creation
- Include compliance with ILO conventions in due diligence processes
- Integrate values of diversity and inclusiveness into workplace culture
- Enable supplier assessment for violations of sustainable labor practices and human rights
- Develop programs to eliminate digital skills gap
- Promote wellbeing and mental health at work
- Engage executive management in ESG topics

Targets you can achieve:

- Raise financial literacy of the population
- Encourage and expand access to financial services leading to decent economic growth
- Achieve full and productive employment and decent work for employees
- Ensure protection of labor rights in all business activities and operations
- Create sustainable and inclusive workplaces
- Enable digital inclusion and foster digital skills
- Ensure ESG topics are reflected on the executive management agenda

Related KPIs:

- Percentage of small-scale businesses with a loan or line of credit
- Number of suppliers assessed for labor practices
- Share of people with disabilities in employment
- Number of grievances received on labor practices
- Share of loan applicants assessed for compliance with ILO conventions
- Share of operations under digital transformation
- Number of people trained in digital skills
- Share of investments in innovation and technology
- Number of board meetings where ESG topics were discussed

How can the sector help in achieving the targets?

Financial institutions are key actors in providing access to a range of basic facilities for people living at the bottom of the pyramid, as they can facilitate economic activity in the country. It is important to understand that poverty is not just the absence of sufficient income, but it is also the absence of a wide range of factors enabling the population to become economically and financially inclusive. Consequently, financial inclusion such as access to basic banking facilities is a serious instrument in tackling poverty. It should be the first step taken, as there is a direct relationship between poverty and the financial inclusion rate.

Financial institutions can simplify loan application forms for SMEs, decrease collateral requirements and be more inclined to open lines of credit for them. According to the latest World Bank research, although 65% of businesses have bank accounts in Azerbaijan, only 15% of them have a line of credit. The findings of the 2018 OECD enterprise survey of Azerbaijan revealed that 58% of surveyed SMEs considered insufficient access to finance as the main barrier to their growth (OECD, 2019).

Additionally, financial institutions can increase financial literacy of the population by educating people on how they can use and benefit from diverse financial services, since that will stimulate entrepreneurial ecosystem and increase the chances for people to build a profitable business through better capital management.

Financial institutions can also stimulate decent work by reviewing the labor conditions of the applicant companies during due diligence processes, such as fulfilment of ILO's core conventions, basic terms and conditions of employment, compliance with local minimum wage requirements, as well as promotion and protection of human rights. If the current economic situation in the country and the willingness of the government to stimulate SME activities to ensure economic growth and a lower dependency on the oil and gas sector are added to the equation, the role of financial institutions in this process should not be undermined and active participation should be encouraged.

Informality of businesses undermines the enforcement of labor rights and safe working conditions. Policymakers can also create an enabling business environment that encourages entrepreneurship and a vibrant business sector. Regulatory framework for financial institutions will need to shift from looking at the type of financial institution providing financial services to the underlying risks associated with the financial activity, with international regulatory standards also needing to adapt to the new landscape. Financial sector strategies should holistically address issues of financial inclusion, deepening and stability, along with consumer protection.

There is also significant uncertainty about the long-term impact of technology and innovation on jobs and decent work, including fear that rapid advances in artificial intelligence could make the labor of millions of people redundant. Automation is also leading to a high concentration of profits among a few companies and locations, contributing to growing income inequality and job polarization. Financial institutions can support innovation that creates new jobs by investing in lifelong learning for employees and communities that enables upskilling and re-skilling, and by investing in innovation and advanced technology to digitize and automate existing business operations.

Finally, promoting fair labor conditions and inclusive workplaces is one of the most efficient ways for advancing the achievement of **Goal 8**. Adopting policies to promote sustainable work practices, establishing mechanisms for ethical concerns and a functional grievance mechanism are all essential tools to ensure fair working conditions. Among both low- and middle-income countries, the share of young people not in employment, education or training (NEET) is similar. Moreover, the NEET rate is significantly higher for women – for example, in lower-middle-income countries, women's risk of having NEET status is almost three times as high as men's (ILO, 2018). Stimulating gender equality and employability of the youth therefore are all the more important to achieve the targets of this Goal.

> Financial institutions can support innovation that creates new jobs by investing in lifelong learning for employees and communities that enables upskilling and re-skilling, and by investing in innovation and advanced technology to digitize and automate existing business operations.

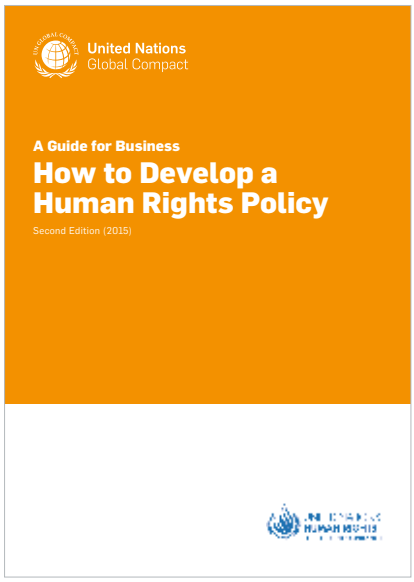
★ BEST PRACTICE

- In 2017, Citi Foundation extended its Pathways to Progress program directed at assisting young people to acquire necessary hard and soft skills through training, building favorable networks and providing internship opportunities. The goal is to increase the chances of employment of 500,000 young people all over the world by 2020 (Citibank, 2017).
- Deutsche Bank launched "DB Enable" initiative in 2017, a dedicated resource group, focusing on disability and integration in the workplace. Through its successful and longstanding cooperation with the Association of Sheltered Workgroups in Germany, the Bank also ensures a number of external jobs for people with disabilities. The Bank's assignments are coordinated and carried out in a number of dedicated workshops. The assignments range from digitization, printing and copying, file destruction and disposal of waste equipment to stamp production and plant care. The proportion of people with a disability in Germany who had found employment increased to 5.7% as of 2018 (Deutsche Bank, 2018).
- Credit Suisse has been investing in innovative SMEs in Switze-land since 2010, when it founded SVC – Ltd. for Risk Capital for SMEs. As of 2018, it has already provided CHF 90 million of venture capital to new, promising companies to help them grow and stay competitive in the current market (Credit Suisse, 2018).

YOUR LIBRARY

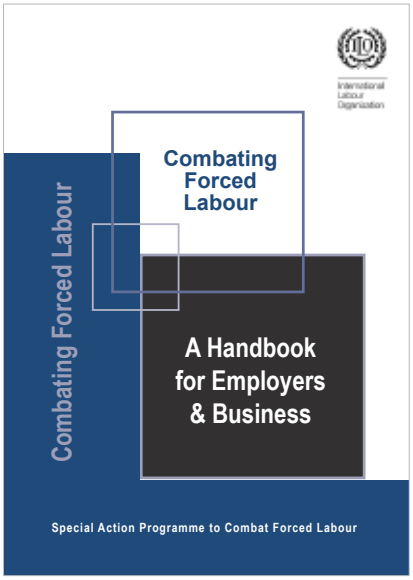
In this report, you can find information regarding the principles that should be incorporated into business practices to avoid child labor in the value chain.

https://www.unglobalcompact.org/docs/issues_doc/human_rights/CRBP/Childrens_Rights_and_Business_Principles.pdf



This is a helpful guide for companies that want to develop a human rights policy, describing the whole process of drafting it and providing lists of recommended readings.

https://www.unglobalcompact.org/docs/issues_doc/human_rights/Resources/HR_Policy_Guide_2nd_Edition.pdf

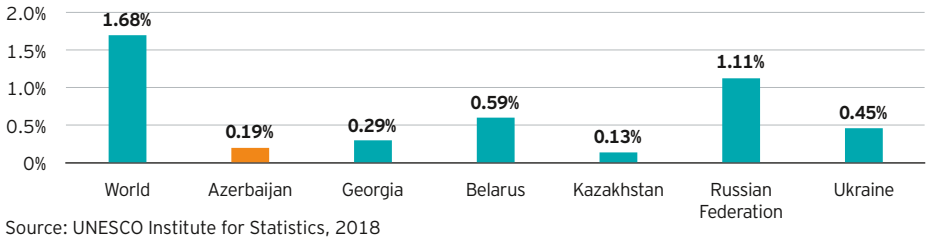


This is a useful handbook to understand what forced labor is and what you should do to avoid it in your business operations.

http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---declaration/documents/publication/wcms_101171.pdf

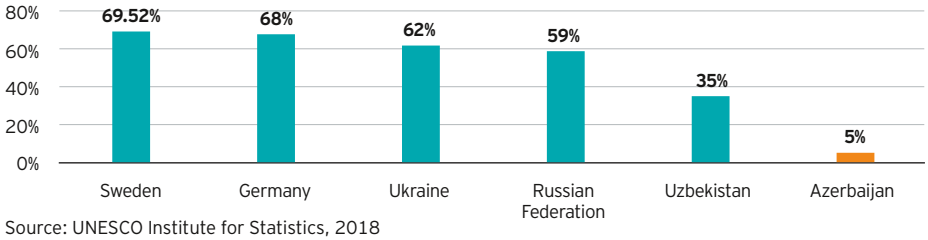
Technological progress is key to finding lasting solutions to both economic and environmental challenges, such as providing new jobs and promoting energy efficiency. Promoting sustainable industries, and investing in scientific research and innovation, are all important ways to tackle climate change and facilitate sustainable development. Combating climate change can only be possible through relevant technological advances that would equip governments and businesses including smaller scale businesses, to substantially lower their carbon emissions. Therefore, **SDG 9** highlights the importance of innovative solutions in the process of industrialization and infrastructure development that will help to mitigate the negative anthropogenic impact on the environment, thereby effectively combatting or hindering the climate change contributing to **SDG 13**. Climate change will affect all sectors of the economy and is relevant to investors and financial institutions as well. Repercussions of climate change such as extreme weather events will affect agriculture and food supply, infrastructure, precipitation and the water supply in ways that are currently only partially understood. Decisions made by private sector investors and financial institutions will have a major influence on how society responds to climate change. With that in mind, there should be substantial funding invested into R&D. According to the UNESCO Institute for Statistics (2018), only 0.19% of GDP in Azerbaijan in 2017 was spent on R&D, compared to 0.29% in Georgia, 0.59% in Belarus and 1.68% overall in the world. In Azerbaijan, R&D investments made by businesses have slightly increased from 4.89% in 2016 to 7.47% in 2017, whereas Uzbekistan's indicators are 5 times higher than Azerbaijan's, despite a decrease from 39.43% in 2016 to 38.26% in 2017. In Ukraine, R&D investment by business enterprises has reached 58.21% in 2017. It is important to note that increasing investment in R&D and active participation of the private sector will enable the country to prepare for global changes and make local companies competitive in the global market.

FIGURE 25.
Share of GDP spent on R&D in Azerbaijan and other countries in 2017, in percentage



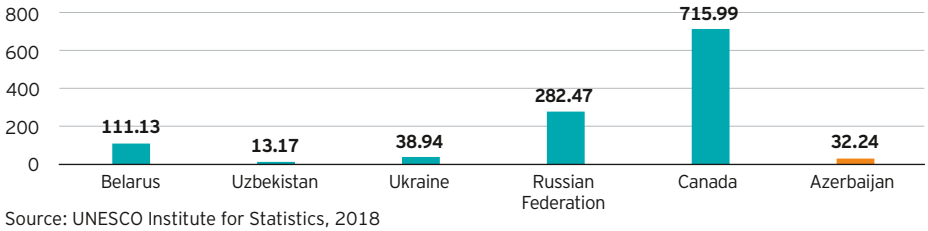
Source: UNESCO Institute for Statistics, 2018

FIGURE 26.
Share of total R&D spending in the country carried out by businesses in 2017, in percentage



Source: UNESCO Institute for Statistics, 2018

FIGURE 27.
Gross domestic expenditure on R&D per capita in 2017, current PPP per US$



Source: UNESCO Institute for Statistics, 2018

Climate change will especially affect small and medium enterprises (SMEs). Small businesses have little say in their location – they are where there is demand, which exposes them to greater risk of flooding and other natural disasters. Some of the implications of extreme weather events for SMEs are loss of market share, loss of key personnel, loss of supplies, as well as interruption of critical utility services. The increased frequency and intensity of such events like hurricanes, wildfires and droughts also threaten food supply, drive people from their homes, separate families and jeopardize livelihoods. Consequently, it's vulnerable and underprivileged people who have the most to lose and suffer as a result of climate change implications.

Possible Target Indicators for Azerbaijan for these SDGs

1. CO_2 emission per unit of value added
2. Proportion of value creation by high technologies in overall GDP
3. Proportion of population covered by a mobile network, by technology
4. Research and development expenditure as a proportion of GDP
5. Researchers (in full-time equivalent) per million inhabitants
6. Proportion of value creation by SMEs in overall GDP

FINANCIAL SERVICES SECTOR

What you can do:

- Increase the access of small-scale enterprises and start-ups to financial services
- Promote capacity-building mechanisms for climate-change related planning and management through investment portfolio and supply chain
- Incorporate environmental screening and climate change impact assessment for corporate loan applicants
- Facilitate high-quality, reliable, sustainable and resilient infrastructure by incentivized financing
- Engage executive management in ESG topics

Targets you can achieve:

- Accelerate innovation and technology advancement
- Promote development and resilience of SMEs and start-ups
- Adapt to and mitigate climate change
- Ensure ESG topics are on the executive management agenda

Related KPIs:

- Return on Climate Change investment
- Research and development expenditure as a proportion of investment
- Percentage of corporate loans assessed for environmental impact
- Proportion of budget spent on training and development of SMEs and start-ups
- Share of operations assessed for climate-related risks and opportunities
- Number of board meetings where ESG topics were discussed

> After the long-acknowledged fact that global warming has catastrophic consequences, it is also increasingly recognized that climate change will significantly impact the financial industry.

How can the sector help in achieving the targets?

After the long-acknowledged fact that global warming has catastrophic consequences, it is also increasingly recognized that climate change will significantly impact the financial industry. It is already altering the availability of and demand for resources, supply and demand for products and services, the performance of physical assets, and the need for innovation. Failure to consider climate change in investment strategies can undermine projected financial returns and affect the non-financial risk management of institutions, particularly on development, environmental, and social issues.

As they channel investment, financial institutions have an opportunity and responsibility to take a leading role in mitigating and adapting to climate change. Institutions managing investments in long-term assets should consider the financial risks associated with climate change, as well as the opportunity to create value by working proactively with clients and stakeholders to manage the risks.

It is generally accepted that sustainable development requires investment in climate-resilient infrastructure. According to the McKinsey Global Institute (MGI, 2016), around US$ 3.3 trillion dollars, or 3.8% of global GDP, is needed to invest in infrastructure globally to meet the 2030 transformation agenda. While Azerbaijan is at its early development stage for major services in banking and encounters challenges in fundamental service offerings, European banks have started focusing heavily on the provision of sustainable services. For example, the corporate banking sector proposes loans supporting projects such as photovoltaic panels, biomass plants, hydropower plants, and energy efficiency measures and sustainable agriculture projects. Similarly, retail banks offer loans for the stimulation of environmental protection (e.g. the purchase of environmental equipment or energy-efficient renovation of property) and banks take part in the European Mortgage Federation-European Covered Bond Council (EMF-ECBC) initiative on green mortgages (European Mortgage Federation, 2018). Some banks have established impact funds investing only in social organizations in Europe. This provides the potential for banks to invest in solutions with a high positive social or environmental impact and financial return, and it creates an opportunity for smaller and riskier projects to obtain funding. Furthermore, several banks have started issuing green revolving loans, and the latter's margins and rates are linked to the sustainability performance of the borrower, inducing improvements for sustainability (European Banking Federation, 2017).

Investment in climate-resilient infrastructure will also have a positive effect on food and water supplies, facilitate access to educational, financial and other public institutions, and decrease unemployment through job creation. The socioeconomic rate of return from infrastructure investment for a country can be 20% (MGI, 2016). Taking into consideration the rate of urbanization and innovations in the transportation, logistics and telecommunications sectors, the development of appropriate modern and climate-resilient infrastructure is essential for any city to be able to function properly in the future.

At the level of an individual business, management's awareness and treatment of climate risk factors will be key determinants of financial success. Proactive assessment and management will decrease the likelihood of adverse impacts from creeping changes or extreme events. Additionally, the first businesses to grasp new opportunities arising from changing conditions will be well-positioned to gain competitive advantage.

Finally, knowledge about climate change and its impacts is evolving rapidly, and many of the key facts are now relatively well established. Continuous advancement of information, supported by increased research and evidence, along with the application of risk management tools, will facilitate incorporation of climate considerations into decision-making. Overall, this should result in investments that are more climate-resilient or better adapted to changing conditions.

- Financial institutions should initiate and participate in public-private partnerships, as they are the most suitable model for infrastructure investment and will help to analyze projects from diverse standpoints
- Infrastructure projects should be assessed on their appropriateness for people with disabilities, as well as their environmental impact
- Designing and creating financial products for small-scale enterprises and start-ups will enable them to use financial services and grow their businesses
- Financial institutions can stimulate innovation by promoting initiatives aimed at various solutions to climate change with the help of advanced technological innovations, and by sponsoring the most successful projects from inception to realization stage

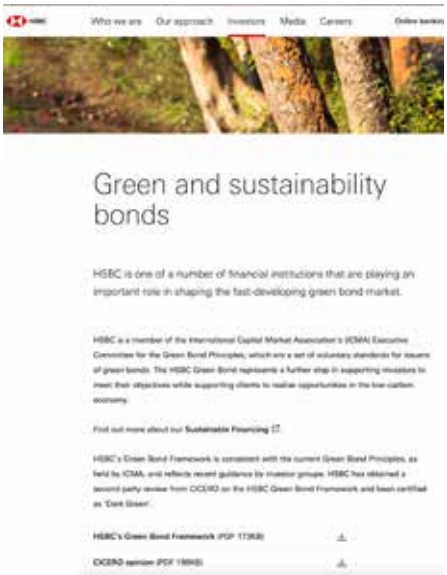
★ BEST PRACTICES

- In 2017, HSBC launched the world's first bond that directly supports the SDGs (including **SDG 13**) and the Paris Agreement. The US$ 1 billion raised through the bond will finance projects that benefit communities and the environment, including hospitals, schools, small-scale renewable power plants and public rail systems.
The bank also published a framework for the SDG bond, which explains that the proceeds will be spent on projects that provide social, economic and environmental benefits and are aligned with seven SDG targets, related to improving access to education **(SDG 4)**, healthcare **(SDG 3)**, freshwater and sanitation **(SDG 6)**, increasing the share of renewables in the global energy mix **(SDG 7)**, building sustainable cities and transport systems **(SDG 11)**, and helping communities adapt to the impacts of climate change **(SDG13)** (HSBC, 2018).

YOUR LIBRARY

The technical supplement published by the Task Force on Climate-related Financial Disclosures (TCFD) features the use of scenario analysis in disclosure of climate-related risks and opportunities.

https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Technical-Supplement-062917.pdf



HSBC SDG Bond Framework is a practical guide towards mobilizing investors to contribute capital towards the significant investments needed to accomplish the 17 Goals.

https://www.hsbc.com/investors/fixed-income-investors/green-and-sustainability-bonds

Climate Bonds Standard provides clear, sector-specific eligibility criteria for assets and projects that can be used for Climate Bonds and Green Bonds. Credible, science-based, widely-supported guidelines about what should and should not be considered a qualifying investment helps investors make informed decisions about the environmental credentials of a bond.

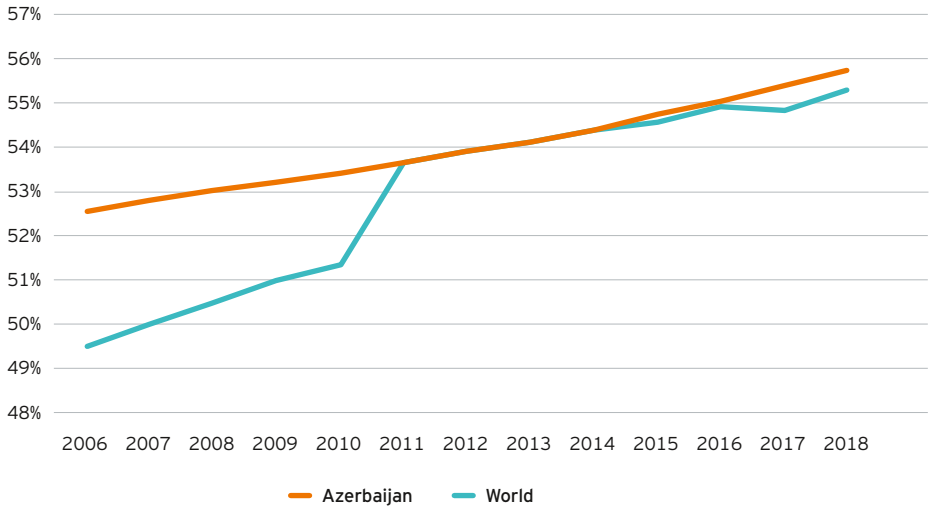
https://www.climatebonds.net/climate-bonds-standard-v3

Urbanization is one of the most important megatrends of this century – already over half of the world's population live in urban areas, and this will rise to two thirds by 2050, adding another 2.5 billion people to urban populations (World Urbanization Prospects, 2018). The same trend can be observed in Azerbaijan. As of 2018, 5.5 million people (56%) are considered official urban residents. This number is most likely even higher, considering that significant proportion of residents are not officially registered at their actual places of residence.

Cities are economic powerhouses, generating more than 80% of the global GDP. However, social problems are concentrated in urban spaces, including poverty, housing shortages and slum settlements – they are also the centers of environmental degradation. Rapid urbanization is putting pressure on the inhabited environment, in particular fresh water supplies, which impacts public health. At the same time, cities are responsible for 78% of energy consumption, and, consequently, more than 60% of GHG emissions (UN, 2019). To ensure sustainable development of cities, the construction of energy-efficient buildings, municipal waste management, the promotion of green transportation and the provision of constant water supply should be in focus. The Smart Sustainable Cities concept that has been evolving in recent years combines sustainability, urbanization and digitization to achieve socio-economic development of citizens, as well as to preserve the natural environment of cities.

Moreover, it is important to make human settlements convenient for people with disabilities, as in 2018 approximately 24 thousand disabled people were registered for the first time in Azerbaijan, 37% of whom live in cities (The State Statistical Committee of Azerbaijan, 2019). Special attention should also be paid to affordable housing, as there were 567,000 internally displaced persons in 2017 in the country and approximately 40% of them do not have access to proper housing services (The State Statistical Committee of Azerbaijan, 2019).

FIGURE 28.
Share of urban population between 2006-2018, in percentage



Source: The World Bank, 2019

Possible Target Indicators for Azerbaijan for this SDG

1. Proportion of urban population living in slums, informal settlements or inadequate housing
2. Proportion of population that has convenient access to public transportation
3. Average share of the built-up area of cities that is open space for public use by all
4. Ratio of land consumption rate to population growth rate
5. Proportion of cities with a direct participation structure of civil society in urban planning and management

FINANCIAL SERVICES SECTOR

What you can do:

- Offer special housing loans for low-income households
- Stimulate smart infrastructure by supporting SMEs and start-ups
- Integrate solutions for people with special needs
- Include sustainability due diligence for construction projects
- Engage executive management in ESG topics

Targets you can achieve:

- Reduce the adverse per capita environmental impact of cities
- Promote inclusive societies for people with special needs
- Ensure access to safe, affordable housing
- Ensure ESG topics are reflected on the executive management agenda

Related KPIs:

- Sustainable investments share in the portfolio
- Financial Soundness Indicator (FSI)
- Number of automated teller machines for people with special needs
- Percentage of small-scale businesses and start-ups with a loan or line of credit
- Number of board meetings where ESG topics were discussed

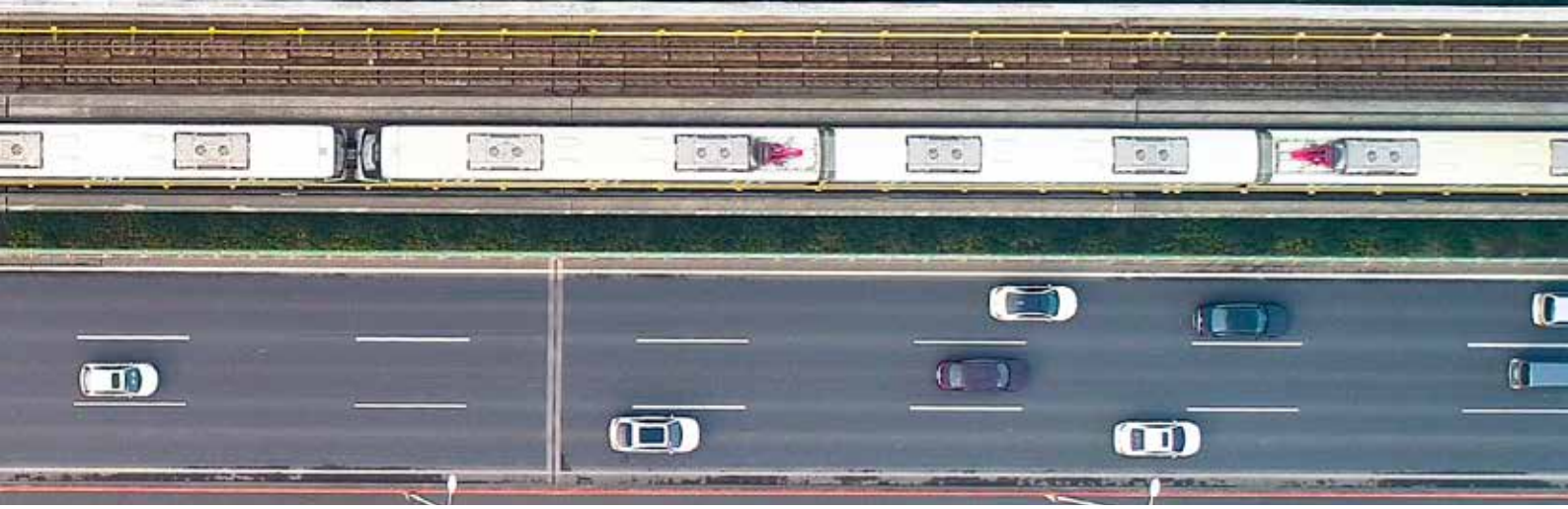
How can the sector help in achieving the targets?

The role of the financial institutions in sustainable urban development is a major issue, especially in developing economies like Azerbaijan, where there is a gap in the Town Planning and Construction Code of Azerbaijan Republic regarding construction site requirements and loan requirements of the banks, as these do not meet international standards. In fact, as of 2019, no bank has adopted the Equator Principles (a framework for determining and assessing social and environmental risks in projects), while construction projects in loan portfolios account for a considerable and increasing share.

Considering these factors, the opportunities for the sector to stimulate establishment of sustainable cities are vast. In fact, the failure of existing financial structures to address contemporary sustainability challenges means that banks should integrate sustainability criteria in the project evaluation and due diligence processes, especially for construction projects, to make companies consider energy-efficient buildings, the use of environmentally friendly materials, waste management, or the reduction of air emissions, to build sustainable cities.

Additionally, to address the problem of unsustainability of banknote production and cash industry, many countries around the world are going cashless. The practice of cashless banking implies that all money transactions are carried out virtually. Currently, countries leading cashless economies are Canada, Sweden and the UK (Forex Bonuses, 2019). In Sweden, the march towards a cashless economy started in 2008, and by now banks have gone cash free and more than half of them do not accept deposits or allow withdrawals.

Financial institutions can also offer special loans with low and fixed rates for underprivileged people to provide them with adequate housing. These products should be promoted in rural areas as well, as the population there may not be aware of opportunities that they can benefit from.



BEST PRACTICE

- Through its "Citi for Cities" initiative launched in 2010, Citi offers financing and advisory, performance optimization and digitization of service solutions to help cities shift to sustainable and modern planning and infrastructure. It has assisted Panama's government in financing the construction of a new metro, which decreased the time needed for people to reach their workplaces by almost 80% (Citibank, 2017).
- In 2017, ABN Amro financed the project for the biggest green motorcycle parking lot in the world. The parking, which is located in Assen, Netherlands, has 21,000 solar panels installed on its roof, generating enough energy to supply about 2,000 families with a year's worth of power. (ABN Amro, 2018).

YOUR LIBRARY

This project is the outcome of a collaboration between cities, researchers, NGOs, multinationals and the private sector and is the evidence that urban stakeholders need to guide and make case for climate action. The Climate Action Impacts Taxonomy introduces the categorization of social, economic and environmental impacts that are present in cities and, consequently, makes it easier to assess cities' sustainability.

https://c40-production-images.s3.amazonaws.com/other_uploads/images/1605_C40_UCAIF_report_V3.original.pdf?1518203136

The fundamental goal of sustainable development is to preserve both terrestrial and aquatic ecosystems and protect biodiversity. Worldwide, the proportion of forest area has decreased by 3% since 1990, and biodiversity loss is constantly increasing due to wildlife poaching, climate change, and plastic waste, which is negatively affecting marine species. It is estimated that around 9 million tons of plastic are dumped in the ocean each year (Woods Hole Oceanographic Institution, 2018), even though it remains a primary source of food for approximately 3 billion people, while seafood is the largest traded food commodity in the world (World Wildlife Fund, n.d.).

According to a Plymouth University study, 700 marine species are affected by plastic pollution (One Green Planet, 2019), while between 11,000 and 20,000 species (the number depends on the water depth and organism size in consideration), are endangered (Threatened Marine Species, United Nations Environment Programme, 2016). Having said that, despite the Azerbaijani Sector of the Caspian Sea and the rivers being rich with different species of fish, 5 of such species are already at risk of extinction. Another major issue at the Caspian Sea is sturgeon overfishing. A predominant part of the species' population resides in the Caspian Sea, however, the world has seen a threatening decline in the numbers. Beluga sturgeon is currently classified as critically endangered. To combat illegal fishing of the species, the government of Azerbaijan is planning to create a Marine Protected Area (MPA) in the Caspian Sea (International Union for Conservation of Nature, 2018). Moreover, the Red List of Azerbaijan includes more than 100 threatened terrestrial species.

Approximately 9,000 km^2 of land are protected, which constitutes 10% of the country. However, limited institutional capacities in the mapping and classifying of ecosystems and habitats, as well as in the development of thresholds to assess their threat status, means that it is not yet possible to objectively report on ecosystem and habitat trends in Azerbaijan. Unsustainable levels of natural resource use, such as overgrazing in grasslands and semi-arid areas, hunting of wild birds and game species, and a poorly maintained water supply network, are further aggravating the situation. Additionally, Azerbaijan's ecological footprint per person was 1.9 global hectare in 2016, which considering the current biocapacity of 0.6 global hectare per person, means that the country currently has a biocapacity deficit of -1.3 global hectare (Global Footprint Network, 2019).

Possible Target Indicators for Azerbaijan for these SDGs

1. Proportion of protected freshwater sources, by ecosystem types
2. Proportion of land degradation to the overall area of land of the country
3. Proportion of fish stocks within biologically sustainable levels
4. Sustainable fisheries as a percentage of GDP
5. Forest area as a proportion of total land area
6. Progress towards sustainable forest management

FINANCIAL SERVICES SECTOR

What you can do:

- Support the development of sector-specific biodiversity due diligence process
- Offer customized financial products for companies that provide ecosystem services
- Implement conservation finance mechanisms
- Assess investment/loan portfolio and supply chain for environmental and social impacts
- Engage executive management in the ESG topics

Targets you can achieve:

- Significantly reduce, and where possible prevent marine pollution of all kinds
- Ensure protection of marine and coastal ecosystems to avoid significant adverse impact
- Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems
- Ensure ESG topics are on the executive management agenda

Related KPIs:

- Sustainable investments share in the portfolio
- Share of conservation finance projects in the investment portfolio
- Share of corporate loan applications assessed for environmental and social impacts
- Number of suppliers assessed for environmental and social impacts
- Number of board meetings where ESG topics were discussed

How can the sector help in achieving the targets?

- Financial institutions are becoming more interested in biodiversity and ecosystems for several reasons. Financing a company that has a negative impact on nature and does not apply any mitigation plans can be a reputational risk for the financial institution, as society and government authorities are paying increasing attention to the environmental aspects of companies' activities. Moreover, firms that fail to integrate potential benefits and losses from ecosystem services into their strategic goals will generate lower investment returns.
- Environmental conservation projects are another tool through which financial institutions can accelerate the achievement of these Goals. The projects remain largely underfunded, with estimates indicating that US$ 300 billion to US$ 400 billion is needed each year globally to preserve and restore ecosystems, but that conservation projects receive only US$ 52 billion, mostly from public and philanthropic sources (McKinsey Global Institute, 2016). Other challenges that conservation finance faces include lack of widely-accepted standards for measuring impact, a shortage of financial-management experience among project developers, the high transaction costs of investing in small projects, and an abundance of early-stage project concepts that are too speculative to interest all but the most risk-tolerant investors. Financial institutions and fund managers can use various methods to improve a project's expected risk-adjusted returns. Management and operational risks, for instance, can be mitigated by assembling a team with all the necessary skills in science, business, regulatory policy, cultural affairs, and other areas. One nascent but promising concept for improving risk-return profiles to suit private investors is blended finance. This involves carving out investment tranches with less favorable risk-return profiles, so they can be funded by concessional capital from public or philanthropic sources. Other tranches can then have risk-return profiles that fit private investors' expectations, making it possible to raise funding for projects whose overall risk-return profiles might otherwise hold little appeal.
- Financial institutions can also develop sector-specific guidelines on biodiversity that will have to be followed to obtain loans or investment. The guidelines can include a biodiversity assessment of areas of operation, an assessment of suppliers on compliance with environmental laws and regulations, and so on. As an example, the Economics of Ecosystems and Biodiversity (TEEB) is a relatively new concept that was created to achieve integration of ecosystem services and biodiversity into decision-making of companies by "making nature's values visible". Banks

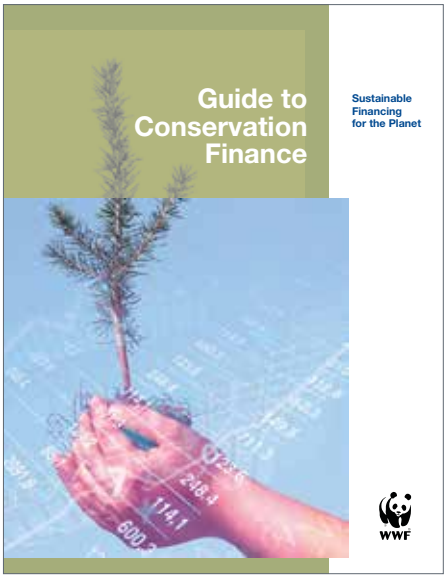
can explore the application of TEEB research among clients, which will help them to identify risks and opportunities associated with ecosystem services.

- Banks can also offer more convenient financial products for companies that incorporate Aichi Biodiversity Targets or any other biodiversity-related goals into their strategic development plan and apply a system that will regularly monitor the achievement of the targets. Taking into account Azerbaijan's geographic location, including an assessment of the impact on the Caspian Sea and its ecosystem could also be required.
- Additionally, conservation finance mechanisms – which are important instruments of sustainable financing, such as water funds, green taxes, bioprospecting, and carbon finance represent types of payments for ecosystem services that can be used to finance a shift away from conventional and unsustainable resource use practices and create a market in favor of preservation, restoration and sustainable management. They can also provide benefits for local communities, who are often the stewards of important conservation areas.

☆ BEST PRACTICE

- Credit Suisse launched Nature Conservation Notes in 2014, its first conservation investment product. The latter invests in sustainable agroforestry and ecosystem conservation, as well as in a portfolio of sustainable bonds. These Notes support conservation activities in around 20 countries, including the economic development of local communities through finance from the Althelia Climate Fund. Financial returns for investors are generated through the sale of sustainably certified commodities and from payments for ecosystem services (Credit Suisse, 2018).

YOUR LIBRARY



TEEB's report that describes biodiversity risks in different industries, what can be done to avoid them, and how to integrate biodiversity into a business model to achieve growth and prosperity.

http://www.teebweb.org/media/2012/01/TEEB-For-Business.pdf

This guide provides cases of different conservation finance mechanisms, discussing both the advantages and disadvantages of each.

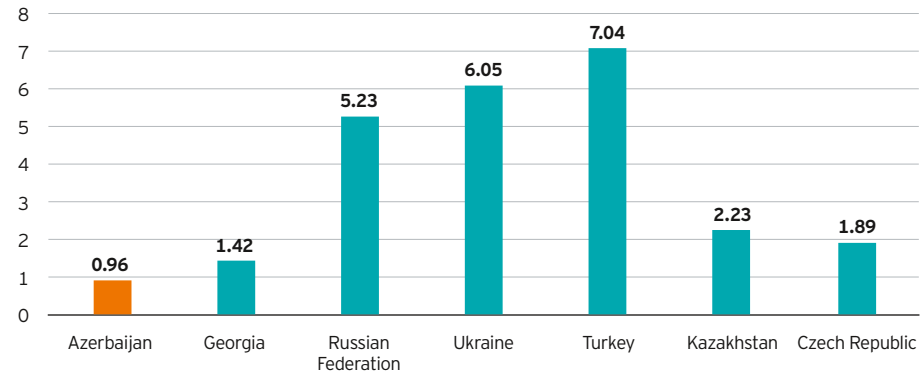
http://awsassets.panda.org/downloads/wwf_guide_to_conservation_finance.pdf

Countries with peace and security thrive in terms of economic development and human rights advancements, while those that suffer from weak governance cannot seem to break the cycle of chronic conflicts and turmoil. This clear correlation between sustainable development and societal stability has long been recognized yet overlooked by most of the global indicators for sustainable development. **SDG 16** aims to achieve the global recognition of human rights, ensure security and justice, end corruption and bribery, and enhance national legislation and institutions. However, it is currently in a state of regression, as human rights violations are on the rise across the world (Amnesty International Annual Report, 2018). Therefore, to ensure just and fair implementation of the Goal, the New York University Centre for International Cooperation has established a concept commonly referred to as **SDG 16+** to accelerate action to implement the Goal. The term **"SDG 16+"** is increasingly used to describe the inter-connected commitments to peace across the 2030 Agenda, and it offers a comprehensive framework to strengthen preventative action on a range of peace-related issues.

Azerbaijan ranked 98th in the Global Terrorism Index 2018, showing better results than most countries in the CIS. Overall, the impact of terrorism is considered to be low in the region. Unfortunately, due to the Nagorno-Karabakh conflict, the country ranked only 130th in the Global Peace Index 2017, and only the Russian Federation (154th) and Ukraine (150th) demonstrated worse results in the CIS (Institute for Economics and Peace, 2018).

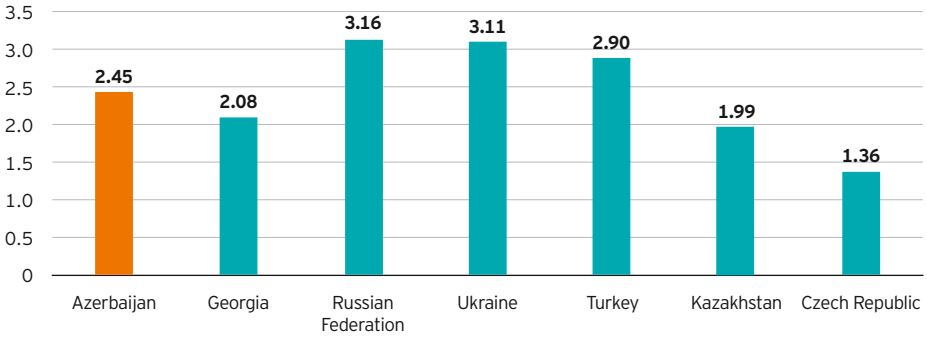
Although traditionally businesses may not be held responsible for promoting a peaceful world or strengthening national legislation, they can in fact, significantly contribute to this Goal through compliance with local and international laws, monitoring labor practices throughout their value chain to ensure the absence of forced or child labor, and providing equal opportunities to all by avoiding any kind of discrimination and ensuring justice through anti-corruption measures and the prevention of illicit financial flows. It is safe to say that this Goal is the core for all the other SDGs, as it requires ethical business practices and high level of transparency at all layers of business operations. Although there are certain improvements in the country in the context of transparency and accountability, these are mostly pertinent to financial reporting. Reporting on non-financial performance, and the implementation of stakeholder engagement mechanisms still remain the least developed and most overlooked parts of the business models.

FIGURE 29.
Global Terrorism Index, 2018



Source: Institute for Economics & Peace, 2019

FIGURE 30.
Global Peace Index, 2018



Source: Institute for Economics & Peace, 2019

> According to the UNDP, corruption, bribery, theft and tax evasion cost developing countries US$ 1.26 trillion annually.

Possible Target Indicators for Azerbaijan for this SDG

1. Number of victims of human trafficking per 100,000, by age and gender
2. Number of complaints from victims of abuse received by relevant authorities
3. Total value of inward and outward illicit financial flows
4. Existence of independent national human rights institutions in compliance with Paris Principles

FINANCIAL SERVICES SECTOR

What you can do:

- Develop and apply an anti-corruption policy
- Integrate anti-corruption and human rights assessment into due diligence for loan applicants
- Enable transparent reporting on non-financial performance
- Integrate assessment of new and existing suppliers into the supply chain
- Enforce comprehensive risk assessment procedures for the product portfolio and supply chain
- Enable a functioning and comprehensive stakeholder mechanism
- Engage executive management in the ESG topics

Targets you can achieve:

- End corruption and bribery in all their forms
- Develop effective, accountable and transparent institutions at all levels
- Ensure protection of human rights and sustainable labor practices
- Promote and enforce non-discriminatory laws and policies for sustainable development
- Improve non-financial reporting landscape
- Shift to transparent accounting
- Ensure ESG topics are on the executive management agenda

Related KPIs:

- Financial Soundness Indicator (FSI)
- Total value of inward and outward illicit financial flows
- Number of anti-corruption training hours
- Number of human rights training hours
- Share of suppliers assessed for governance, corruption and human rights risks
- Number and quality of published sustainability reports with long-term targets
- Number of consultation sessions per stakeholder category
- Number of board meetings where ESG topics were discussed

How can the sector help in achieving the targets?

According to the UNDP, corruption, bribery, theft and tax evasion cost developing countries US$ 1.26 trillion annually (UNDP, 2018). In addition to the economic deficit, corruption is also detrimental to institutional robustness, which is necessary to maintain societal stability. When institutional transparency is eroded, organized crime, market inefficiency and human rights violations spread. Corruption can take the form of bribery, fraud, insider trading or even value manipulation in transactions and loan collateral.

At first glance, the role of the financial institutions in delivering **SDG 16** might seem imperceptible. The financial services sector is not one many would immediately assume having significant social risks within its supply chain. Yet with its presence in the country firmly established, its impact is quite considerable. Financial institutions need to build transparency both internally and along the supply chain by conducting risk and impact assessments to identify the weak links that may contribute to corruption and impair the rule of law.

Human rights and labor practice assessments should be applied to current contractors as well as when selecting companies for cooperation in the future. As a result, contractors will acknowledge the importance of compliance with human rights and labor norms to win and prolong contracts, and consequently, the volume of violations in the supply chain will decrease.

Financial institutions should develop anti-corruption and anti-bribery policies, hold relevant training sessions to communicate these policies to their employees, and ensure regular assessments of the level of compliance, which can be conducted by an independent third-party organization.

A shift to transparent accounting, which is further stimulated by the financial situation in the country, can enable organizations to reduce their costs, make operations more efficient, and stabilize tax payments to the government. Reporting on non-financial performance will further enhance the transparency of the reporting organization and will be a crucial tool to reinforce a mutually beneficial engagement with the stakeholders.

Financial institutions should also strive to contribute to policy-making and legislation updates by providing expert information and practical knowledge of their industry, which will help to design relevant and appropriate standards and policies.

☆ BEST PRACTICE

- Since 2014, Standard Chartered has more than doubled the staff working in Financial Crime Compliance. It has internal financial crime prevention policies and every year more than 80,000 of its employees complete training to prevent bribery, corruption and money laundering. The Bank also has a human rights policy (Standard Chartered, 2018).
- Ace Group, a global insurance company, established a "Rule of Law Fund" which provides grants to organizations and initiatives that support rule of law worldwide. The fund targets specific rule of law initiatives such as sponsoring conferences that focus on building frameworks for legal institutions in conflict zones and building pro bono efforts in developing countries (Ace Group, 2019).

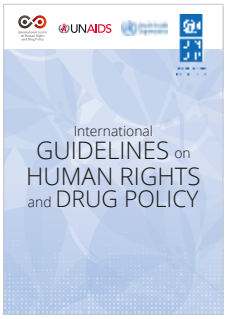
YOUR LIBRARY

Business Against Corruption is a practical guide with a list of useful sources for companies that want to eliminate corruption in their operations.

https://www.unglobalcompact.org/docs/news_events/8.1/bac_fin.pdf

Considering the fact that corruption can significantly affect many different aspects of operations and can create reputational and other risks for a company, Guide for Anti-Corruption Risk Assessment is a tool that helps management to foresee such problems and avoid them.

https://www.unglobalcompact.org/docs/issues_doc/Anti-Corruption/RiskAssessmentGuide.pdf



The UNDP Human Rights guidelines highlight the measures that should be undertaken or refrained from undertaking by states and businesses, in order to comply with human rights obligations while taking into account their concurrent obligations.

https://www.undp.org/content/dam/undp/library/HIV-AIDS/HRDP%20Guidelines%202019_FINAL.PDF

Final Remarks

Sustainable Development Goals are not purely theoretical with no means for practical implementation. In fact, the contrary is true, with clear evidence that the potential of the SDGs may only be achieved with a constructive union between the state, public and private sector. The achievement of these goals is important for each of us as they create a healthy environment where both nature and humanity are valued.

This guide was designed to help businesses operating in the financial services sector to understand the area of their impact, and clearly presents steps that can be followed to incorporate each SDG into business strategy and day-to-day operations.

The SDGs cannot be achieved without the active participation of the businesses. By improving operations, complying with the best international standards and applying innovative ideas, some of which are presented in this report, local businesses will not only support the 2030 Agenda, but will also be prepared for legislative changes that are going to take place in the near future. This will help to attract foreign investors, who are concerned more than ever about the sustainability aspects of the projects in which they invest. Responsible business practices will be essential to achieving transformational change through the SDGs. Successful implementation and a future-oriented outlook as opposed to "SDG-washing" and orientation on the past, will strengthen the enabling environment to build a better living and working world.

How EY can help

Our global, multidisciplinary teams bring together our experience in assurance, tax, transactions and advisory services with climate change and sustainability knowledge across industries. We have experience working on climate and energy issues with governments, businesses and investors.

Our teams' broad range of skills, such as data analysis and project financing support, combined with sector-specific experience, means that we can tailor our services to your requirements to help you address the climate change challenges facing your business.

EY has in-depth experience in impact assessment, especially in tools such as social return on investment, life cycle assessments and input/output modeling. We will work closely with you to select the optimal mix of tools and engagement techniques to provide options that can be embedded into your future activities and provide effective recommendations for future program design and operations.

We can help you:

- integrate sustainability principles into your overall business strategy
- enhance your ESG management system
- assess full-scale of your economic and social impact
- estimate your social return on investment (SROI)
- draft the business case to adopt the SDGs
- align the company strategy, goals and targets with the 17 SDGs and the supporting targets
- identify growth opportunities related to underserved geographies and segments of society, which could benefit from innovative products and services developed in a sustainable way
- measure outcomes and impacts to understand your company's contributions to the SDGs
- create clear communication and credible reporting on your company's progress against the SDGs
- establish traceable GHG inventories across the value chain
- model the physical and transition impacts of different climate scenarios, including 2°C scenarios, on businesses
- assess your most important environmental, social and governance risks to support you in mitigating them in an effective and timely way
- prepare robust nonfinancial information to present to your intended users: investors and other stakeholders
- increase the effectiveness of your corporate reporting including nonfinancial
- clearly identify and manage emerging sustainability risks and opportunities throughout the value chain

Contacts

Ilgar Veliyev
Country Managing Partner for Azerbaijan
Tel.: +99 412 490 7020
Ilgar.Veliyev@az.ey.com

Artem Larin
Partner, Head of Climate Change
and Sustainability Services in the CIS
and Central Europe
Tel.: +7 495 641 2971
Artem.A.Larin@ru.ey.com

Gunel Farajova
Head of Climate Change
and Sustainability Services
in Azerbaijan and Georgia
Tel.: +994 12 490 7020
Gunel.Farajova@az.ey.com

References

BBVA, (2013). BBVA Microfinance Foundation. [online]
Available at: http://proyectos.bancaresponsable.com/irc/information-on-corporate-responsibility-2013/high-social-impact-products/financial-inclusion/bbva-microfinance-foundation/

BP, (2017). BP Statistical Review of World Energy. [pdf]
Available at: https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/statistical-review-2017/bp-statistical-review-of-world-energy-2017-full-report.pdf

Business and Sustainable Development Commission, (2017). Better Finance, Better World. [online]
Available at: http://businesscommission.org/our-work

C40 Cities Leadership Group, (2017). Urban Climate Action Impacts Framework. [pdf]
Available at: https://c40-production-images.s3.amazonaws.com/other_uploads/images/1605_C40_UCAIF_report_V3.original.pdf?1518203136

CARE International UK, (n.d.). Banking on Change: Breaking the Barriers to Financial Inclusion. [pdf]
Available at: https://www.home.barclays/content/dam/barclayspublic/docs/Citizenship/banking-on-change.pdf

Central Bank of the Republic of Azerbaijan, (2016). [online]
Available at: https://www.cbar.az/

CGAP, (2017). Latest trends in financial inclusion funding. [online]
Available at: https://www.cgap.org/

Citi, (2017). Banking on 2030: Citi & the Sustainable Development Goals. [pdf]
Available at: http://www.citigroup.com/citi/about/citizenship/download/Banking-on-2030-Citi-and-the-SDGs-Report.pdf?ieNocache=915

Citi, (2017). Sustainable Growth at Citi. [pdf]
Available at: http://www.citigroup.com/citi/sustainability/data/Sustainable-Growth-at-Citi.pdf

Credit Suisse, (2018). Corporate Responsibility – at a Glance 2017. [pdf]
Available at: https://www.credit-suisse.com/media/assets/corporate/docs/about-us/investor-relations/financial-disclosures/financial-reports/csg-crr-at-a-glance-en.pdf

Deutsche Bank, (2015). Deutsche Bank enters new partnership addressing Sustainable Development Goals. [online]
Available at: https://www.db.com/cr/en/concrete-deutsche-bank-enters-new-partnership-addressing-Sustainable-Development-Goals.htm

EBF, (2017). Towards a Green Finance Framework. [pdf]
Available at: https://www.ebf.eu/wp-content/uploads/2017/09/Geen-finance-complete.pdf

EBF, (2019). Azerbaijan's banking sector: Facts & Figures.
Available at: https://www.ebf.eu/azerbaijan/

EU, Microfinance Centre, Azerbaijan Microfinance Association, (2016). Developing women's entrepreneurship in Azerbaijan: Case study. [pdf]
Available at: http://mfc.org.pl/wp-content/uploads/2016/04/Case-Study-EU-projectAMFA_FINAL_ENG.pdf

FAO, (2018). Mountain Green Cover Index. [online]
Available at: http://www.fao.org/sustainable-development-goals/indicators/1542/en/

ILO, (2011). Statistical Update on Employment in the Informal Economy. [pdf]
Available at: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/presentation/wcms_157467.pdf

ILO, (2018). Global Wage Report 2016/17. [pdf]
Available at: http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_537846.pdf

ILOSTAT, (2017). Unemployment rate – ILO modelled estimates. [online]
Available at: http://www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page3.jspx?MBI_ID=2&_afrLoop=333970552597314&_afrWindowMode=0&_afrWindowId=15jt5zysty_1#!%40%40%3F_afrWindowId%3D15jt5zysty_1%26_afrLoop%3D333970552597314%26MBI_ID%3D2%26_afrWindowMode%3D0%26_adf.ctrl-state%3D15jt5zysty_45

Institute for Economics & Peace, (2017). Global Peace Index. [pdf]
Available at: http://visionofhumanity.org/app/uploads/2017/06/GPI17-Report.pdf

Institute for Economics & Peace, (2017). Global Terrorism Index. [pdf]
Available at: http://visionofhumanity.org/app/uploads/2017/11/Global-Terrorism-Index-2017.pdf

International Finance Corporation, (2017). Climate investment opportunities. [online]
Available at: https://www.ifc.org/wps/wcm/connect/news_ext_content/ifc_external_corporate_site/news+and+events/news/new+ifc+report+points+to+%2423+trillion+of+climate-smart+investment+opportunities+in+emerging+markets+by+2030

International Energy Agency, (2017). World Energy Investment 2017. [online]
Available at: http://www.iea.org/publications/wei2017/

International Energy Agency, (2018). [online]
Available at: https://webstore.iea.org/world-energy-balances-2018

International Trade Administration, (2016). Azerbaijan - Banking and Financing. [online]
Available at: https://www.export.gov/article?id=Azerbaijan-Banking-and-Financing

InvestBrothers, (2017). Какова структура ВВП России? [online]
Available at: https://investbrothers.ru/2017/01/26/kakova_struktura_vvp_rossii/

Lighting Africa, (2017). [online]
Available at: https://www.lightingafrica.org/about/

McKinsey Global Institute, (2016). Bridging Global Infrastructure Gaps. [pdf]
Available at: https://www.mckinsey.com/~/media/McKinsey/Industries/Capital%20Projects%20and%20Infrastructure/Our%20Insights/Bridging%20global%20infrastructure%20gaps/Bridging-Global-Infrastructure-Gaps-Full-report-June-2016.ashx

McKinsey Global Institute, (2018). Five ways that ESG creates value. [online]
Available at: https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value

Ministry of Economy of the Republic of Azerbaijan, (2016). Azərbaycanda Qadın Sahibkarlığın İnkişafına Dair Arayış. [pdf]
Available at: http://economy.gov.az/images/pdf/qadin-sahibkarligi.pdf

National Statistics Office of Georgia, (2017). Gross Domestic Product of Georgia. [pdf]
Available at: http://geostat.ge/cms/site_images/_files/english/nad/GDP%202017_Q2_Press%20release_Eng.pdf

OECD's, (n.d.). Scaling up Finance Mechanisms for Biodiversity. [pdf]
Available at: https://www.oecd.org/env/resources/OECD%20Finance%20for%20Biodiversity%20[f]%20[lr]%20WEB%20SM.pdf

Olivier J.G.J., Schure K.M., Peters J.A.H.W., (2017). Trends in Global CO2 and Total Greenhouse Gas Emissions. PBL Netherlands Environmental Assessment Agency.

SDG Index and Dashboards Report, (2018). Sustainable Development Report. [online]
Available at: https://sdgindex.org/

Standard Chartered Bank. (2016). Annual Report. [pdf]
Available at: https://av.sc.com/corp-en/content/docs/2016-annual-report-strategic-report.pdf

The Ministry of Finance of the Republic of Azerbaijan, (2016). Azərbaycan Respublikasının dövlət büdcəsi haqqında qanunu. [online]
Available at: http://maliyye.gov.az/

The State Statistical Committee of the Republic of Azerbaijan, (2016).
Available at: https://www.stat.gov.az/

The World Bank Group, (2014). Expanding Women's Access to Financial Services. [online]
Available at: http://www.worldbank.org/en/results/2013/04/01/banking-on-women-extending-womens-access-to-financial-services

The World Bank Group, (2015). Access to Finance for Micro, Small, and Medium-Sized Enterprises in Azerbaijan. A Demand-Side Assessment. [pdf]
Available at: http://cesd.az/new/wp-content/uploads/2015/05/world_bank_presentation_SME5.pdf

The World Bank Group, (2015). Global Findex Database. [online]
Available at: http://datatopics.worldbank.org/financialinclusion/

The World Bank Group, (2018). World Bank Azerbaijan Partnership Program Snapshot. [pdf]
Available at: http://pubdocs.worldbank.org/en/984491461321293943/Azerbaijan-Snapshot-April-2016.pdf

The World Bank Group, (2016). World Bank Open Data. [online]
Available at: https://data.worldbank.org/

The World Bank Group, (2017). Annual Report. [pdf]
Available at: http://pubdocs.worldbank.org/en/908481507403754670/Annual-Report-2017-WBG.pdf

Turkish Statistical Institute, (2016). [online]
Available at: http://www.turkstat.gov.tr

Voluntary National Reviews Database, (2019). Voluntary National Review of Azerbaijan. [online]
Available at: https://sustainabledevelopment.un.org/vnrs/

U.S. Energy Information Administration, (2017). International Energy Outlook 2017. [pdf]
Available at: https://www.eia.gov/outlooks/ieo/pdf/0484(2017).pdf

UN, (1948). Universal Declaration of Human Rights. [online]
Available at: https://www.un.org/en/universal-declaration-human-rights/

UN, (2014). World Urbanization Prospects. [pdf]
Available at: https://esa.un.org/unpd/wup/publications/files/wup2014-highlights.pdf

UN, (2017). Progress towards the Sustainable Development Goals. [pdf]
Available at: https://unstats.un.org/sdgs/files/report/2017/secretary-general-sdg-report-2017--EN.pdf

UN, (2017). United Nations Country Team in Azerbaijan Report. [pdf]
Available at: https://uprdoc.ohchr.org/uprweb/downloadfile.aspx?filename=5245&file=EnglishTranslation

UNDP, (2014). About Azerbaijan. [online]
Available at: https://www.az.undp.org/content/azerbaijan/en/home/countryinfo.html

UNESCO Institute for Statistics, (2017). Science,technology and innovation: Gross domestic expenditure on R&D (GERD), GERD as a percentage of GDP, GERD per capita and GERD per researcher. [online]
Available at: http://data.uis.unesco.org/

UNICEF, (2016). Gender Equality Statistics. [online]
Available at: https://data.unicef.org/topic/gender/overview/

World Development Indicators, (2018). Urban Population. [online]
Available at: http://databank.worldbank.org/data/reports.aspx?source=2&type=metadata&series=SP.URB.TOTL.IN.ZS

World Resources Institute, (2018). GHG Emissions. [online]
Available at: https://www.wri.org/tags/ghg-emissions

EY | Assurance | Tax | Transactions | Advisory

25 years in Azerbaijan

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY works together with companies across the CIS and assists them in realizing their business goals. 5,500 professionals work at 19 CIS offices.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.