

PRINCIPLES OF ESG IMPLEMENTATION IN COMPANIES OF UZBEKISTAN: A COMPREHENSIVE ANALYSIS

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Abstract

The integration of Environmental, Social, and Governance (ESG) principles into business operations has become increasingly important worldwide, including in the context of Uzbekistan. This article provides a detailed examination of the key principles underlying ESG implementation within companies operating in Uzbekistan. Through an in-depth analysis of relevant literature, regulatory frameworks, and empirical data, this study aims to elucidate the fundamental principles guiding ESG integration in Uzbekistan's business landscape. Key aspects explored include the drivers behind ESG adoption, challenges encountered, and strategies employed by companies to effectively implement ESG practices. Furthermore, the article discusses the role of stakeholders, government policies, and international standards in shaping ESG initiatives within Uzbekistani companies. By elucidating the principles of ESG implementation, this research contributes to a better understanding of sustainable business practices and provides insights for policymakers, practitioners, and scholars seeking to promote responsible corporate behavior in Uzbekistan and beyond.

Keywords: Sustainable development, The Sustainable Development Goals, green economy, green jobs, ESG principles, investment, financial and non-financial risks, risk mitigation.

Introduction

In recent years, there has been a growing recognition of the importance of incorporating Environmental, Social, and Governance (ESG) considerations into corporate decision-making processes. This trend reflects a broader global shift towards sustainable and responsible business practices, driven by concerns over climate change, social inequality, and corporate governance failures. Uzbekistan, as an emerging economy undergoing significant economic and social transformation, is not exempt from these pressures. Companies operating within Uzbekistan are increasingly expected to align with ESG principles to enhance their competitiveness, mitigate risks, and contribute positively to society and the environment.

Today, the decision of the President of the Republic of Uzbekistan dated December 2, 2022, PD-N^o 436 "On measures to increase the effectiveness of reforms aimed at the transition of the Republic of Uzbekistan to a "green" economy until 2030" and the transition of the Republic of Uzbekistan to a "green" economy within the framework of the transition strategy, effective work is being carried out in connection with the implementation of the tasks set to ensure "green" and inclusive economic growth. [1]

This article aims to explore the principles of ESG implementation within companies operating in Uzbekistan. Specifically, it seeks to:

1. Identify the key drivers motivating companies in Uzbekistan to adopt ESG practices.
2. Examine the challenges and barriers faced by companies in implementing ESG initiatives.
3. Analyze the strategies employed by companies to integrate ESG considerations into their business operations.
4. Evaluate the role of stakeholders, government policies, and international standards in influencing ESG implementation in Uzbekistan.
5. Provide recommendations for enhancing ESG integration and promoting sustainable business practices in Uzbekistani companies.

The United Nations has played a pivotal role in addressing global challenges such as climate change and environmental degradation, advocating for corporate participation in these efforts [2]. Consequently, new ESG-related standards and frameworks are emerging to guide companies in aligning their business goals with global environmental concerns [3]

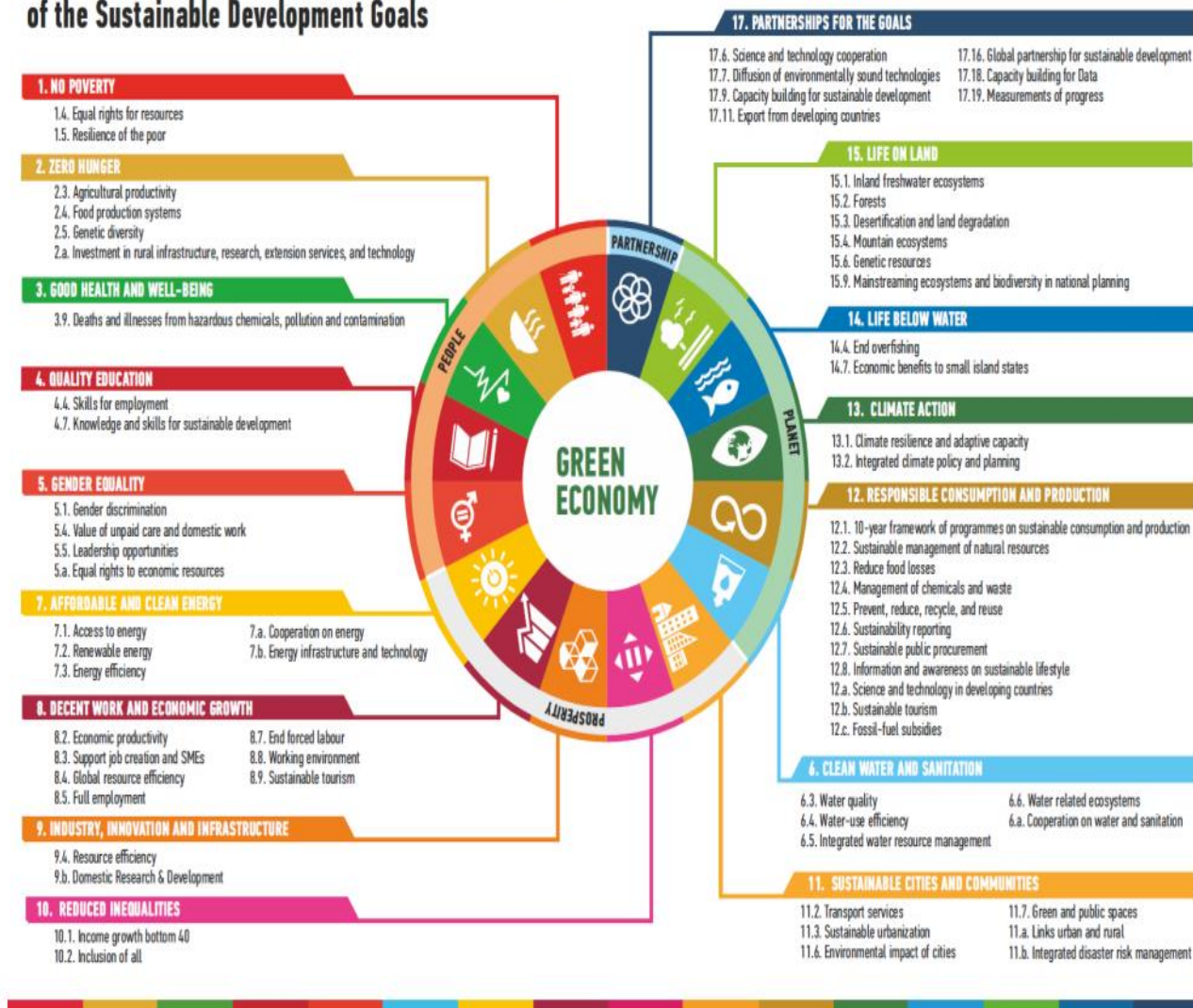
The prominence of ESG among global firms is driven by several factors. First, the investor community's growing focus on sustainable and responsible investments recognizes the impact of ESG factors on long-term financial performance and risk management [4]. This shift motivates companies to adopt ESG practices to attract and retain investment. Second, ESG is crucial for risk mitigation, as environmental and social risks can significantly affect a company's operations, reputation, and financial standing [5]. Third, ESG practices provide a competitive advantage, as consumers and stakeholders often prefer companies with strong ESG commitments, enabling these firms to differentiate themselves and enhance market performance [6]. Additionally, regulatory compliance has become a key driver behind ESG adoption. With governments and regulatory bodies enforcing ESG standards, proactive implementation helps companies minimize compliance costs and legal risks [7]. Finally, ESG offers opportunities for long-term value creation through initiatives like renewable energy use and responsible supply chain management, leading to cost savings and operational efficiency [8].

Main body

The Sustainable Development Goals (SDGs) adopted in September 2015 set up a new global development agenda. The most prominent feature of this agenda is its transformative nature and complex approach that combines social, economic, and environmental issues. Improving human well-being and social equity in a way that doesn't harm the environment but reduces environmental risks and scarcities requires a new economy: a green economy.

There is no unique definition of the green economy, however, there is a common understanding of what it means — an economy that improves human well-being and social equity, while significantly reducing environmental risks and ecological scarcities and aims for sustainable development without degrading the environment. Unlike the traditional economy, which focuses primarily on expanding “output,” i.e., gross domestic product (GDP) or gross national income (GNI), the green economy promotes a triple bottom line of sustaining and advancing economic, environmental, and social well-being. A green economy can also serve as a powerful vehicle for achieving the Sustainable Development Goals (SDGs); because of the transversal nature of the SDGs green economy measures can be found in targets across many goals, as illustrated below.

Contribution of the Green Economy to achievement of the Sustainable Development Goals



Picture 1. Contribution of the Green Economy to achievement of the SDGs¹

Within the framework of the 32nd annual meeting of the Board of Directors of the European Bank for Reconstruction and Development (EBRD), the Ministry of Economy and Finance of the Republic of Uzbekistan expressed an initiative to join the "Coalition of Finance Ministers on Climate".

Currently, governments of all countries, and business and civil society representatives are joining efforts to combat climate change by actively implementing the principles of "green" growth. Today, the coalition includes finance ministers from more than 80 countries.

This coalition was established as a result of the support of the World Bank, and its main goal is to take into account climate issues in the development of economic and financial policies, to raise awareness of the main climate-related problems, and to increase the capacity of the ministries of finance in this direction and support global efforts to prevent climate change.

The Helsinki principles promoted within the coalition are consistent with the priority goals set in the Strategy of transition to a "green" economy of Uzbekistan. In particular, the implementation of

¹ UNDP, 2019. Green economy and green jobs: Challenges and opportunities. (Source: <http://bit.ly/3k8BRWH>)

national actions on climate change under the Helsinki principles with the active involvement of fiscal policy and public finance is proportional to the reforms carried out by the Ministry of Economy and Finance of the Republic of Uzbekistan.

The Helsinki principles promoted by the coalition include:

1. Align our policies and practices with the Paris Agreement commitments;
2. Share our experience and expertise with each other in order to provide mutual encouragement and promote collective understanding of policies and practices for climate action;
3. Work towards measures that result in effective carbon pricing;
4. Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices;
5. Mobilize private sources of climate finance by facilitating investments and the development of a financial sector that supports climate mitigation and adaptation;
6. Engage actively in the domestic preparation and implementation of Nationally Determined Contributions (NDCs) submitted under the Paris Agreement.

Integration of sustainable development principles is now an essential part of NMMC's (Navoi Mining and Metallurgical Combinat JSC) business processes. The Company strives to increase its production and financial performance, considering its impact on the economy, society, and the environment. To pursue these goals, NMMC has formed a Sustainability Committee responsible for implementing activities under international best practices. The Committee acts as the main decision-making body for NMMC's sustainability goals and policies. As a result of the committee's activities, environmental and safety risks have been identified and strategic initiatives programs have been revised.



Picture 2. Sustainability indicators of Navoi Mining and Metallurgical Combinat JSC ²

² Sustainability Report 2021. Navoi Mining and Metallurgical Combinat JSC.
<https://www.ngmk.uz/en/home/blog/sustainability/esg-data-and-reports>



Picture 3. Sustainability indicators of Navoi Mining and Metallurgical Combinat JSC ³

NMMC strives to build an effective management system for the sustainable development system and continues to actively implement and integrate the principles of sustainable development into its business processes.

The Company sets goals to build a sustainable development management system that will include the following elements:

- Commitment of NMMC to the principles of sustainable development of all levels of management;
- Analysis of the external and internal situation in three aspects of sustainable development: economic, environmental, and social;
- Identification of risks in sustainable development in the social, economic, and environmental spheres;
- Stakeholder engagement and stakeholder mapping;
- Implementation of priority areas (initiatives) in sustainable development;
- Integration of sustainable development into key business processes;
- Professional development of the Company's employees in sustainable development;
- Organization of the annual sustainable development reporting process;
- Measurement of performance in sustainable development;
- Improvement of the sustainable development process.

NMMC understands that the Company's activities are closely related to sustainability risks and may lead to adverse environmental or social consequences. To reduce the likelihood of such consequences, the Company regularly analyses potential sustainability risks and corresponding opportunities for the business, employees, and other stakeholders, and strives to make balanced decisions based on risks and opportunities.

³ Sustainability Report 2021. Navoi Mining and Metallurgical Combinat JSC.
<https://www.ngmk.uz/en/home/blog/sustainability/esg-data-and-reports>

The Company takes the same approach to identifying, assessing, monitoring, and managing financial and non-financial risks. On an annual basis, the Company reassesses all risks to ensure that all risks are considered, and effective risk management measures are developed. The Company then analyses risk factors, including sustainability risks, which may adversely affect business development and the achievement of set goals and indicators. NMMC supports the UN SDGs adopted in 2015 by the UN General Assembly. Given the significance of all 17 goals, NMMC identified eight SDGs to which the Company can make the most significant contribution. Specific targets have been identified within each of these goals to ensure a tangible result is achieved.

Sustainable Development Goals highlighted in the Sustainability Report of NMMC.⁴



GOAL 1: END POVERTY IN ALL ITS FORMS EVERYWHERE

Company's contribution:

- we provide support to young employees in training and acquisition of housing;
- we provide sponsorship to low-income families, war and labour veterans, and orphanages;
- we provide free medical and treatment-and prophylactic services.

Key Indicators for 2021:

- | | |
|--|--|
| <ul style="list-style-type: none"> ○ NMMC Fund provides dormitory facilities for 10,625 employees ○ NMMC provided financial and material assistance to low-income people amounting to \$13.25 thousand | <ul style="list-style-type: none"> ○ support to sports organizations – \$0.7 thousand ○ aid to orphanages and boarding schools amounted to \$8.53 thousand |
|--|--|



GOAL 3: ENSURE HEALTHY LIVES AND PROMOTE WELL-BEING FOR ALL AT ALL AGES

Company's contribution:

- we implemented an automated management information system for industrial safety ;
- we created programs for the predictive modelling of emergency situations;
- we provide all employees, their family members, and pensioners of the Company with free medical care.

Key Indicators for 2021:

- | | |
|--|--|
| <ul style="list-style-type: none"> ○ safety awareness among employees 100% ○ ISO 45001:2018 Occupational Health and Safety Management System was implemented at the CIA, covering more than 19,760 employees | <ul style="list-style-type: none"> ○ no new cases of occupational diseases among employees were recorded 0 cases |
|--|--|

⁴ Sustainability Report 2021. Navoi Mining and Metallurgical Combinat JSC. <https://www.ngmk.uz/en/home/blog/sustainability/esg-data-and-reports>



GOAL 4: ENSURE INCLUSIVE AND EQUITABLE QUALITY EDUCATION AND PROMOTE LIFELONG LEARNING OPPORTUNITIES FOR ALL

Company's contribution:

- we provide sponsorship to secondary schools, boarding schools, and institutes;
- we provide retraining and professional development programs.

Key Indicators for 2021:

- employees trained
- employees studying in the universities of the Republic of Uzbekistan at the expense of the Company

14,338

225

- opening of a modern pre-school special educational organisation for children with disabilities in the city of Zarafshan.



GOAL 6: ENSURE AVAILABILITY AND SUSTAINABLE MANAGEMENT OF WATER AND SANITATION FOR ALL

Company's contribution:

- we introduced solar installations for the supply of hot water;
- we developed and implemented a technological scheme for mine water treatment jointly with the Scientific Research Institute of the Ecology and Environmental protection;
- we introduced the reuse of treated household waste in the technological process at HMP-3.

Key Indicators for 2021:

- for the scientific study of the problems of water supply and water saving at the plant, a 'Laboratory for the Study of Water Problems' was organised based on the 'Central R&D Laboratory' (CRDL);
- a Program of Activities for the economical use of water resources for the period 2021-2026 was approved.



GOAL 7: ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY FOR ALL

Company's contribution:

- we annually implement Energy Efficiency Improvement Programs.

Key Indicators for 2021:

- we introduced steam turbines at the sulphuric acid production areas of the Northern Mine Group;

- we implemented three photovoltaic stations with a total capacity of

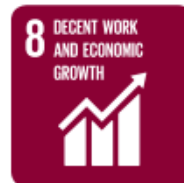
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kW

- we introduced LED spotlights with a solar panel, a photocell, and a motion sensor with a power of between

60-150

W at mining waste dumps



GOAL 8: PROMOTE SUSTAINED, INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH, FULL AND PRODUCTIVE EMPLOYMENT AND DECENT WORK FOR ALL

Company's contribution:

- we are implementing the NMMC Innovation Development Program until 2026;
- we work with representatives of small businesses as part of the localisation program;
- 100% of workplaces in the Company undergo an internal audit for compliance with the requirements of the OHS management system.

Key indicators for 2021:

- we implemented the international standard ISO 45001:2018 at the Central Mining Group;
- modernisation of the automated information system for industrial safety management;

- economic effect from the use of patents

\$31

million



GOAL 9: BUILD RESILIENT INFRASTRUCTURE, PROMOTE INCLUSIVE AND SUSTAINABLE INDUSTRIALIZATION AND FOSTER INNOVATION

Company's contribution:

- o NMMC's Innovation Development Programs until 2026, particularly in ecology and energy;
- o implementation of R&D projects;
- o we carry out scientific research and development of technologies jointly with scientific institutes and foreign companies;
- o increased funding for scientific research and rationalisation activities.

Key indicators for 2021:

- o repair and rehabilitation of social facilities, as well as the laying of new facilities in Samarkand, Jizzakh and Khorezm provinces and Zaamin district.



GOAL 12: ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS

Company's contribution:

- o implementation of an improved technology for processing sulphide ores at HMP-3 jointly with Engineering Dobersek GmbH;
- o disposal of used tires in the Company to obtain heating fuel and carbon black by pyrolysis in the Company's business unit.

Key indicators for 2021:

- o an environmentally friendly roasting technology has been introduced, with a five-stage purification process for exhaust gases with a purification rate of

98%

Conclusion

In conclusion, the integration of ESG principles presents both opportunities and challenges for companies operating in Uzbekistan. By incorporating ESG principles into their business strategies, companies operating in Uzbekistan can take advantage of various opportunities:

1. **Improved reputation:** Companies that demonstrate strong ESG practices are often viewed more favorably by customers, investors, and other stakeholders. This can help enhance the company's reputation, attract top talent, and improve customer loyalty.
2. **Access to capital:** Many investors are increasingly considering ESG factors when making investment decisions. Companies that adhere to ESG principles may have better access to capital and lower borrowing costs.
3. **Reduced operational risks:** By implementing sustainable practices, companies can reduce their environmental impact, mitigate social risks, and strengthen their governance structures. This can help safeguard the company against potential regulatory fines, legal issues, and reputational damage.
4. **Innovation and growth opportunities:** Companies that prioritize ESG principles are often more likely to innovate and develop new products and services that meet evolving consumer demands. This can open up new market opportunities and drive business growth.
5. **Enhanced stakeholder engagement:** By engaging with employees, customers, suppliers, and the community on ESG issues, companies can build strong relationships and create a more inclusive and transparent corporate culture.

But on the other hand, companies operating in Uzbekistan may face challenges in implementing ESG principles due to a lack of established frameworks, limited awareness and understanding, inadequate ESG reporting, regulatory constraints, and cultural and social barriers, including:

1. Lack of established frameworks: ESG principles are relatively new in Uzbekistan, and there is a lack of established frameworks and guidelines for companies to follow. This can make it difficult for companies to measure and report on their ESG performance accurately.
2. Limited awareness and understanding: Many companies in Uzbekistan may have limited awareness and understanding of ESG principles and the potential benefits they can bring. This can make it challenging for companies to implement ESG initiatives effectively.
3. Inadequate ESG reporting: Companies in Uzbekistan may struggle to collect, analyze, and report on ESG data due to a lack of resources and expertise in this area. This can make it difficult for investors and stakeholders to assess the company's ESG performance.
4. Cultural and social barriers: The cultural and social norms in Uzbekistan may not necessarily align with ESG principles, making it challenging for companies to implement ESG initiatives that are accepted and valued by local stakeholders.

It is essential for companies to invest in building internal capacity, engaging stakeholders, and collaborating with partners to overcome these barriers. Additionally, regulatory frameworks need to be strengthened to ensure accountability and transparency in ESG reporting and compliance.

Overall, the journey towards integrating ESG principles in business operations in Uzbekistan may be challenging but holds great promise for driving positive change and creating value for companies, society, and the environment. By committing to ESG principles, companies can build resilience, improve stakeholder trust, and contribute to a more sustainable and equitable future for all.

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