



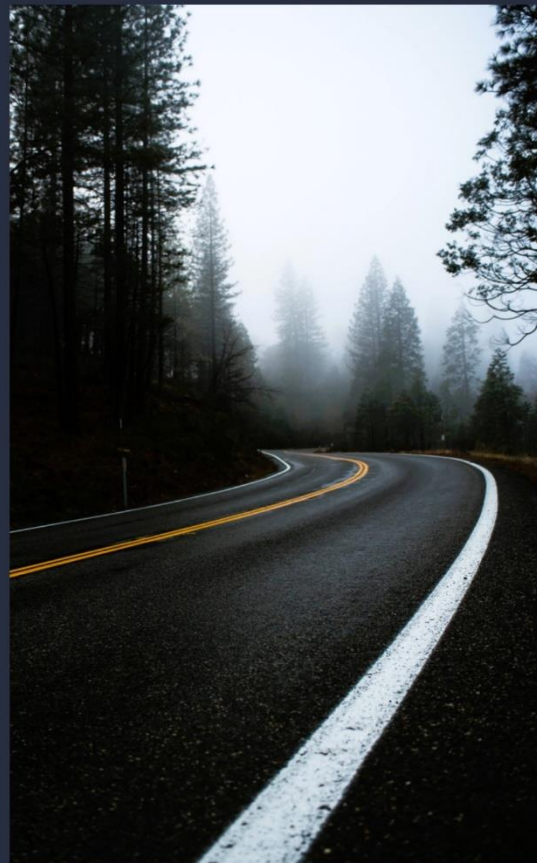
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# National Framework for Corporate Social Responsibility in Georgia

Recommendations to the Georgian Government

*Executive Summary*





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# **The National Framework for Corporate Social Responsibility in Georgia**

## **Recommendations to the Georgian Government**

**Executive Summary**

**Tbilisi, 2023**

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## Executive Summary

The purpose of this policy document is to assess the initiatives driving corporate social responsibility (CSR) and sustainability in Georgia and to formulate recommendations for the Georgian government in this sphere. The document delves into Georgia's current landscape concerning CSR, juxtaposing it with the experiences of European states to extract best practices.

The first part of this document explores the global and national backdrop of corporate social responsibility, while the second part is devoted to the discussion of the current situation and international experience pertaining to the focal areas of CSR. In particular, the increased regulation in Europe on CSR, including its extension to supply chains outside of the EU, is considered. The document concludes that, in Europe, where there is a pre-existing culture of promoting CSR, compliance with new regulations and laws is stronger. To date, in preparing for an enabling environment for CSR in Georgia, Ireland has been identified as a strong model for embedding a culture of CSR.

In Georgia, three key strategic areas have been identified to bolster CSR: fortifying cooperation between governmental bodies and key stakeholders, fostering policies that endorse CSR and sustainability within the private sector and cultivating the competencies of stakeholders involved in CSR.

The study of the current situation in Georgia revealed several critical observations regarding the integration of corporate social responsibility (CSR) in the private sector in line with international standards. Firstly, the practice remains underdeveloped. Secondly, there is an absence of a cohesive state policy to drive this integration. Lastly, a general lack of societal awareness persists regarding CSR and its attendant positive impacts.

Notably, the most advanced state policy regarding the incorporation of CSR into corporate operations resides within the financial sector. The National Bank of Georgia, in its pursuit to foster a green economy and augment private sector participation, has crafted a Sustainable Finance Taxonomy. Additionally, the financial sector stands unique in mandating commercial banks to furnish Environmental, Social, and Governance (ESG) reports. These reports, formulated by the National Bank for Financial Institutions, encompass social and environmental impact assessments, incorporating information on risk identification, management, and mitigation concerning ESG matters.

Another pivotal governmental initiative aimed at fostering corporate sustainability involves the enactment of a new law governing public procurement in June 2023. This legislation delineates the establishment of a sustainable public procurement system within Georgia. Mandated compliance with sustainability criteria across four priority sectors in public procurement will commence from 2025. Moreover, the country exhibits a less developed landscape regarding tax instruments that promote sustainability. Notably, among the mechanisms fostering sustainability lies the avenue of companies engaging in charitable activities.

The formulation of state policies aimed at supporting CSR, alongside initiatives directed at fostering environmental responsibility and advancing green economy activities within the private sector, finds provision within several state strategies and action plans. Additionally, Georgia employs mechanisms such as Extended Producer Responsibility (EPR) and Environmental Impact Assessment (EIA) obligations to address pertinent concerns.

The National Human Rights Protection Strategy of Georgia for 2022-2030 incorporates efforts to promote the adoption of international CSR standards within private sector operations. This strategy addresses challenges pertinent to human rights protection within the business sector and endeavors to fortify relevant standards ensuring human rights protection within companies. Notably, specific actions within this strategy have yet to be expressly defined.

However, notwithstanding the aforementioned initiatives, the establishment and implementation of corporate social responsibility in Georgia necessitate the development of a unified state policy. This policy should be grounded in coordinated efforts and the application of suitable supportive tools. Equally important is the imperative to heighten awareness among stakeholders engaged in corporate social responsibility endeavors and to augment their skill sets. The document outlines recommendations for the Georgian government to formulate a policy advocating CSR promotion, taking into account identified challenges within Georgia and insights gleaned from international practices. Furthermore, the document underscores the pivotal roles of other key players such as trade unions, business associations, educational institutions, and civil society organizations in this domain.

### ***Recommendations:***

- It is imperative for Georgia to institute a comprehensive Corporate Social Responsibility (CSR) Action Plan as a foundational framework for systematically integrating and advancing CSR practices across sectors. Simultaneously, sustaining the CSR Stakeholders Forum stands pivotal in fostering collaboration among government bodies, businesses, academia, civil society, and international entities. This forum's continuity will ensure ongoing dialogue, knowledge-sharing, and collective decision-making, serving as a linchpin in formulating, implementing, and evaluating CSR policies and initiatives.
- A critical step in coordinating the implementation of corporate social responsibility involves establishing a dedicated government unit tasked with overseeing CSR initiatives. Identifying the appropriate administrative placement for such a unit within the state administrative framework is essential. In the context of Georgia, establishing this unit within the Ministry of Economy and Sustainable Development is a viable option, necessitating close collaboration with other ministries overseeing social welfare, healthcare, environmental protection, and related concerns. Equally crucial is the appointment of adequately qualified and knowledgeable personnel to staff this unit effectively.



- Considering that Georgia's legal framework for public procurement aligns with international standards and EU legislation, the effective application of the government's policy becomes paramount in ensuring the successful execution of the sustainable public procurement system. This necessitates: (1) leveraging a decentralized system for public procurement in Georgia, incorporating inter-agency coordination and fostering skill development among personnel; (2) developing an intricate mechanism to thoroughly assess companies' sustainable practices and detect instances of 'greenwashing'; (3) identifying additional sectors wielding substantial long-term impact and progressively expanding sustainability regulations within their public procurement processes..
- Drawing insights from international practices regarding systems of tax incentives aimed at bolstering sustainability in companies, specific directions were delineated. These encompass setting preferential rates for the consumption of renewable energy, establishing target emission rates for the industrial sector, and implementing varied tax rates to incentivize compliance with environmental standards.
- The promotion of corporate social responsibility necessitates robust support for small and medium-sized enterprises (SMEs). State support for enterprises venturing into CSR can manifest in diverse forms, including financial incentives such as grants. In tandem with existing CSR competitions, the establishment of new competitions, particularly at the regional level, specifically geared toward promoting corporate social responsibility, becomes imperative. It holds significance to develop orientation programs and professional training initiatives tailored for SMEs. These programs should encompass methodologies and strategies for integrating CSR into SME operations, empowering their employees with new skills and knowledge.
- Addressing issues within state-owned enterprises (SOEs) hinges significantly on instating corporate social responsibility standards in their operations. Resolving challenges encountered by state-owned enterprises—such as political influence, inefficient management practices, subjective employee recruitment processes, and violations of environmental standards—can be achieved through state-led CSR initiatives. These may include the implementation of corporate governance code for SOEs, codes of ethics, and other frameworks enhancing accountability. Ensuring financial transparency concerning budget allocations also emerges as a pivotal aspect of this process.
- Despite the incorporation of green economy development provisions in numerous state strategies, as well as the establishment of mechanisms like Extended Producer Responsibility (EPR) and Environmental Impact Assessment (EIA), Georgia lacks a cohesive, unified strategic vision for transitioning to a green economy. Thus, the initial step necessitates formulating a comprehensive state vision in this domain. Additionally, fostering mechanisms for green financing and investment attraction emerges as a critical need. Integrating green criteria into

existing financing instruments of Enterprise Georgia stands out as an essential measure to involve small and medium producers in the green economy.

- Integrating corporate social responsibility (CSR) into higher education curricula is pivotal for ensuring its sustained implementation and fostering new knowledge in this domain. Similarly, embedding CSR education within secondary schools and vocational training centers is essential. Educating students about CSR will significantly raise awareness among the younger generation, nurturing them into skilled professionals. Concurrently, fostering research endeavors in the realm of corporate social responsibility is imperative. The convergence of teaching, research, and practical applications will serve as a vital catalyst for CSR development in Georgia.
- Heightening awareness regarding CSR holds significant importance for both business entities and society at large. CSR plays a pivotal role in shaping a company's brand image, enhancing appeal to customers, employees, and investors, and contributing to overall business success. To amplify awareness about CSR, organizing communication campaigns, seminars, conferences, and roundtable discussions in collaboration with universities and expert organizations is crucial. Soliciting feedback through citizen surveys, conducting training sessions for public agencies and local government staff, hosting informational sessions regarding environmental protection for state agencies and citizens, and establishing a panel of CSR ambassadors—comprising well-known figures—to disseminate information about CSR's significance are essential measures.
- Facilitating the implementation of CSR practices necessitates the exchange of best practices among organizations. Organizing CSR competitions is instrumental in promoting the sharing of these best practices. The state should actively encourage and participate in such competitions, possibly granting accolades to winning companies directly from state political figures, thereby underscoring the competitions' significance. State agencies and state-owned enterprises should lead by example, demonstrating best practices for private companies to emulate and implement CSR standards. Given that the state is the largest employer in Georgia, setting a precedent for CSR implementation, particularly concerning labor rights protection, holds paramount importance. Moreover, establishing online platforms where both Georgian and foreign companies can share their experiences would further enrich the dissemination of CSR best practices.
- The realm of sustainability transparency and sustainable development reporting in Georgia's private sector lags behind. Gradual development in this domain necessitates determining the companies where sustainability reporting should be obligatory. A country action plan for sustainability reporting should be developed and introduced. Supporting the private sector in this endeavor involves crafting a sustainable development reporting guidelines aligned with international standards. Furthermore, assisting companies in honing relevant skills and

competencies becomes essential for successful implementation. Considering Georgia's commitment under the EU Association Agreement to approximate its institutions and policies with those of the EU, it would be necessary to ensure that the country action plan introduces the required actions, resources, and timelines for adoption of the requirements of the recent EU Corporate Sustainability Reporting Directive, as well as the European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG). It is important to note that non-EU companies will also have to follow the new rules. Namely, non-EU companies with substantial activity in the EU market will have to follow equivalent reporting rules.

- At the state level in Georgia, there exists no mandate for introducing due diligence mechanisms aimed at evaluating and managing the adverse impacts of companies' activities, except within the financial sector. Promoting the proliferation of this mechanism within the country entails formulating a voluntary system and guidelines for companies to assess and manage negative impacts in adherence to international and EU standards, especially in initial stages. Crafting an appropriate regulatory framework specifically targeting large companies operating in high-impact sectors like mineral extraction and agriculture becomes pertinent.
- Fostering the adoption of international standards of corporate social responsibility within Georgia underscores several key points identified through an exploration of international practices. First, setting an example for private companies by incorporating international standards in state enterprises emerges as crucial. Second, considering the feasibility of implementing the Extractive Industries Transparency Initiative (EITI) standard for companies involved in mineral resource extraction within Georgia while identifying high-risk sectors is imperative. Finally, ensuring Georgia's accession to the OECD guidelines for multinational enterprises remains an essential step in aligning with international CSR norms.