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**“Social taxonomy in the EU and its inclusion. How it can be adapted
to Uzbekistan “**

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a. Background

Social sustainability objectives – essentially, workers’ and other human rights – are at the core of the European Union. This is reflected, for instance, in Article 3 of the Treaty on European Union, which provides that “the Union shall work for the sustainable development of Europe aiming at full employment and social progress, combat social exclusion and discrimination, and shall promote social justice and equality between women and men”. 1. This is also at the basis of the Charter of Fundamental Rights of the European Union. 2. In furtherance of these objectives, on February 28 of this year, the Platform presented to the Commission its report on a Social Taxonomy (the “Report”). 3. The Platform is an independent group of experts from industry, academia and

the public sector. Its purpose is to advise the Commission in relation to the development of sustainable finance policies and, in particular, the EU Taxonomy. 4. On July 12, 2021, the Platform published a draft version of the Report. 5. The definitive version that is published this year takes into account the stakeholder feedback received since. The Commission is now expected to publish a proposal for a Social Taxonomy Regulation in the course of 2022. While the recommendations in the Platform's final report are not binding, they are likely to carry significant weight. Once the Commission's regulatory proposal is published, it will be subject to review by the European Parliament and Council as part of the ordinary legislative procedure.

b. Introduction.

- **Relevance**

The European Union (EU) is a unique economic and political union between 27 European countries. The EU that we know today has its roots in several treaties signed in the aftermath of the Second World War.

The Regulation (the "Taxonomy Regulation", or "Environmental Taxonomy") established (back in 2020) an EU-wide framework to determine if a given economic activity may qualify as environmentally sustainable (or "green"). This framework is intended to provide businesses and investors with a common language to identify sustainable financial products, investments and debt exposures. The European Commission will now consider how the Taxonomy framework can be extended to also cover social and governance sustainability objectives (the "S" and "G" of E-S-G). The Platform's final report is expected to serve as the basis for a new regulatory proposal by the Commission to this effect.

- **Aims:**

The aim of the research is to examine the purpose of Social Taxonomy of EU and its affection that has been giving to the living standards of the population of EU and to its economy. Research, at the final stages, will connect the Social Taxonomy of EU with Uzbekistan. As a final stage the research will count a possible recommendations and ways to bring and adopt Uzbekistan to Social taxonomy, by connecting its substantial benefits and improvements that can get Uzbekistan as an EU.

- **Objectives:**

1. To learn the classification of Social Taxonomy of EU. ESG.
2. To discover the founder and reasons, aims of the foundation of Social Taxonomy of EU.
3. To study the substantial contribution to a social sustainability and specific economic activities of Environmental Taxonomy of EU.
4. To find the significant benefits of Socio Taxonomy and provide recommendations for how it can be adopted in Uzbekistan.

c. Elements of a Social Taxonomy

The EU Taxonomy Legislation.

- It includes the main legislation (the Taxonomy Regulation) to set the principle completed by Delegated Acts to clarify the criteria,.
- It shapes a common language for green investments that investors can apply internationally when projects have a substantial positive impact on the climate and the environment.
- It includes a “Green list” to classify sustainable activities.

The report says that the overarching goal of the social taxonomy is to spell out what constitutes a social investment and what economic

activities can provide a substantial contribution to social goals – as it has been done through the green taxonomy.

While some economic activities are inherently harmful to the environment (and others are not), most activities tend to have some inherent social benefits, for instance by creating employment. A Social Taxonomy must therefore differentiate between “inherent” (‘business-as-usual’) and “additional” social benefits of economic activities.

1. Unlike the Environmental Taxonomy, there are fewer scientific standards on which the criteria for a Social Taxonomy could be based. The Platform recommends that the Social Taxonomy should therefore be based on “internationally agreed authoritative norms and principles”;

2. Relatedly, developing quantifiable criteria for a Social Taxonomy may be more challenging in some instances (compared to measuring pollution or other environmental sustainability factors), which is why a combination of quantitative and qualitative criteria will likely need to be employed.

1. Social objectives.

As with the Environmental Taxonomy, in order to be considered (socially) sustainable an economic activity will need to “substantially contribute” to one or more of the EU’s chosen social sustainability objectives. The Platform proposes that the Taxonomy focus on three high-level objectives (centred around three groups of stakeholders, whose lives of are typically most affected):

1. Promoting decent work (focusing on employee-stakeholders)
2. Promoting adequate living standards and well being for end-users/consumers (focusing on end-users as stakeholders)
3. Promoting inclusive and sustainable communities and societies (for any other communities affected at any point of the product’s value chain).

“Substantial contribution” to an objective (and, therefore, whether an economic activity qualifies as “socially sustainable”) will be defined at sub-objective level.

Objective	Sub-objectives
Decent work	Promoting decent work
	Promoting equality and non-discrimination at work
	Ensuring respect for the human rights and workers’ rights of affected workers in the value chain
Adequate living standards and well-being for end-users	Ensuring healthy and safe products and services
	Designing products to be durable and repairable
	Providing for cybersecurity and the protection of personal data and privacy
	Engaging in responsible marketing practices
	Ensuring access to quality healthcare products and services including care services
	Improving access to healthy and highly nutritious food
	Improving access to good-quality drinking water
	Improving access to good-quality housing
Inclusive and sustainable communities and societies	Improving access to education and lifelong learning
	Promoting equality and inclusive growth
	Supporting sustainable livelihoods and land rights
	Ensuring respect for the human rights of affected communities by carrying out risk-based due diligence

2. Forced labour and product bans.

The Commission has reiterated on multiple occasions its “zero-tolerance” position on forced and child labour. This is reflected in various initiatives promoting decent work, such as:

- The April 2021 proposal for a Corporate Sustainability Reporting

Directive (setting out detailed reporting requirements relating among other things also to labour rights).

- The February 2022 proposal for a Corporate Sustainability Due Diligence Directive 9 (setting out due diligence obligation for certain large companies to identify, prevent, mitigate and account for actual and potential adverse impacts on human rights, including labour rights, throughout their value chains); and The Report aligns with this stance in the following ways:

1. Sub-objectives: one of the suggested Social Taxonomy objectives is “promoting decent work.” The Platform suggests that this may include “taking immediate and effective measures to end forced labour and exploitation of work, with specific reference to workers with a migration background.”

2. Substantial contribution: the Platform recognised that it may be challenging to formulate meaningful criteria for substantial contribution to the objective of “avoiding and addressing child labour or forced labour” (since these issues are generally subject to zero-tolerance). The Platform therefore suggests “that experts be consulted to better understand if and how these objectives could be reasonably framed in substantial-contribution criteria.”

3. DNSH: the Platform recommends mirroring the Environmental Taxonomy structure in that activities should not qualify as Taxonomy-aligned where they do significant harm to any of the objectives and sub-objectives. In that context, the Platform noted as an example that “an economic activity that makes a substantial contribution to living wages (thus promoting the decent-work objective) should not use child or forced labour in supply chains.” On February 23, 2022, the Commission also issued a “Communication on Decent Work”.¹³ The document mentions an initiative to ban products made through forced labour from the

European single market. The Commission states that this legislative proposal will build on international standards and will apply to both domestic and imported products.

Social Taxonomy would be to channel investment to certain activities through appropriate disclosure and labelling (rather than prohibiting certain products or activities). It appears, however, that in the context of the DNSH criteria the Platform suggests a strict approach to the use of forced labour, such that an economic activity that involves forced labour at any point in the supply chain would be (if not altogether banned) certainly not able to qualify as Taxonomy-aligned.

This taxonomic classification is part of the Regional Innovation Monitor (RIM) which allows for detailed comparison between regions in Europe and for informing policy makers about investment opportunities as well as changes in population composition.

- Substantial contribution and sector prioritisation.

The Platform envisages three different types of substantial contribution to a social sustainability objective:

1. Reducing the negative impact of economic activities
2. Enhancing the inherent positive impact of certain economic activities
3. Facilitating/promoting either (i) or (ii) above (“enabling activities”)

As with the Environmental Taxonomy, criteria for what qualifies as **substantial contribution will be tailored to specific economic activities.**

This requires prioritisation of sectors. The Platform considers that any prioritisation of sectors should depend on the type of **substantial contributions**:

1. Reducing negative impact

The first category of substantial contribution relates to the embedding of social rights due diligence in businesses' activities across their value chains. The Platform recognises that reducing the negative impact of business operations can bring “transformative social improvements” for those affected. The Platform recommends to prioritise high-risk sectors, where negative impacts are easier to identify . Examples may include, in relation to health and safety for instance, mining, manufacturing, or construction.

The Platform notes the following challenges:

c. ‘Business as usual’: minimum standards which form part of ‘business as usual’ should not be enough to qualify as substantial contribution. The Platform therefore recommends to require, measures to be (i) credible, (ii) ‘best in class’ in terms of design and implementation, and (iii) meaningful in terms of outcomes for stakeholders.

b. Difficulties in sector-prioritisation: some topics or sub-objectives are sector agnostic, meaning that it is challenging to determine which sectors are especially relevant to the sub-objective. Examples of this include collective bargaining and workforce diversity aspects. The Platform recommends formulating generic DNSH criteria where this is the case. These would be linked to an activity (not to the entity), and they would have the same wording for all activities identified in the Social Taxonomy.

c. Zero-tolerance issues: some issues, such as child labour or forced labour , are generally subject to “zero-tolerance in law and sometimes subject to import bans and exclusion criteria”. It may be difficult to

formulate substantial-contribution criteria for objectives like “avoiding and addressing” these issues. The Platform recommends that experts be consulted to “better understand if and how these objectives could be reasonably framed in substantial- contribution criteria”.

2. Enhancing positive impact.

The second substantial contribution category relates to the provision of certain economic goods, services or infrastructure that are essential for ensuring adequate living standards. Examples of this are food and water, housing, healthcare, education, transport and telecommunications.

In terms of sector prioritisation, the Platform recognises that not all economic activities relating to such goods or services should equally qualify as socially sustainable. Capital flows should be directed towards situations in which basic human needs/infrastructure are (i) not met at all, (ii) not accessible to certain groups, or (iii) at risk of not being met in the future. The Platform suggests that such situations can be identified by applying the “AAAQ Concept” (Availability, Accessibility, Acceptability, Quality), which it describes as a way “to address all possible obstacles to the fulfilment of social, economic and cultural rights and to find ways to overcome these obstacles”.

3. Enabling activities

The third category of substantial contribution relates to activities which enable improved social performance in other activities. The Platform cites as examples social audits, stakeholder dialogues, mediation services or complaint mechanism, and testing aimed at detecting harmful substances in consumer products. The selection of sectors for enabling activities will reflect the one that applies to the other substantial contribution categories.

4. DNSH(do no significant harm).

The Platform recommends that DNSH criteria be formulated at the level of each sub-objective. The effect of this would be that, even where an activity substantially contributes to a relevant sub-objective, it will not qualify as socially sustainable if it violates any of the DNSH criteria that refer to other sub-objectives. The Platform mentions potential challenges with this approach:

(i) Practical difficulties of granularity: formulating DNSH criteria at the sub-objective level will require assessing an activity for both its substantial contribution (to one sub-objective) and DNSH (to other sub-objectives), under the same headline objective. It might occur that an activity assessed for substantial contribution to one sub-objective also needs to demonstrate DNSH for the very same sub-objective.

(ii) Impossibility of linking turnover or expenditure to sustainability objectives: where turnover or expenditure cannot meaningfully be linked to one or more sub-objectives (for purpose of Taxonomy-related disclosures, such as the ones that are set under Article 8 of the current Taxonomy Regulation), minimum-safeguards should apply instead. Sub-objectives like freedom of association and taxation could present this challenge, for instance.

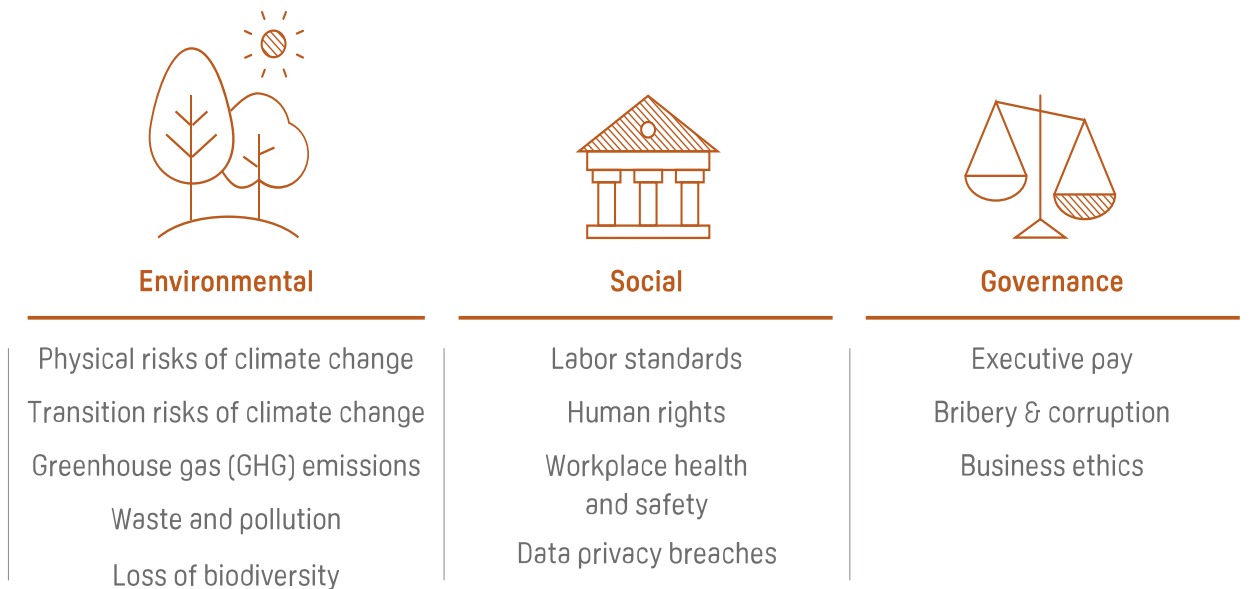
d. Sustainable Governance, and corporate governance requirements related to ESG.

ESG (Environmental, Social and Governance).

By adopting sustainability as the foundation of any investment thesis, investors seek to address the financial materiality of ESG issues, particularly climate change. They are closely tracking progress by

corporations and governments toward the transition to a net-zero economy —

Examples of ESG Factors



Source: Pictet Asset Management

The Report recommends that the Taxonomy should include reporting requirements for companies on certain corporate governance aspects related to sustainability.

Governance structures are seen as key to the aims of the Taxonomy, given that they provide a company with the internal framework for addressing social and environmental impacts. Because governance is linked to the undertaking (entity-level) rather than its activities, the obvious place to include governance-related obligations within the Taxonomy would be within minimum safeguards. The Report considers two key objectives related to sustainable governance:

In the Platform's view, each of these can be broken down into various sub-objectives.

1. Sustainable Governance (G) objectives, to complement the EU's Environmental (E) and Social (S) Taxonomy
2. Strengthening companies' requirements related to the corporate governance of ESG

1. Sustainable Governance objectives.

The Platform considers five governance (G) topics as relevant to sustainability: (i) Anti-bribery and anti-corruption: companies should be required to demonstrate and disclose their commitment to anti-bribery and anti-corruption measures. This may include appropriate risk-assessment systems (especially in the context of interaction with public officials), routine anti-corruption training and whistle-blowing procedures. (ii) Responsible lobbying and political engagement: while recognising the important role it can play, the Platform suggests that lobbying must be conducted in a responsible manner. This may include refraining from active lobbying during elections and ensuring transparency over payments and collaboration with politicians. The Platform therefore recommends that the Social Taxonomy require companies to disclose their policies and procedures on direct and indirect lobbying, any payments for lobbying, and their involvement with tax-exempt organisations that write or endorse model legislation. (iii) Transparent and non-aggressive tax planning: the Platform notes the significant role that (corporate) taxes play in providing sources of government revenue (and so investment in public infrastructure and services), and reducing inequality (through redistribution of wealth). According to the Platform, the Social Taxonomy should aim to promote transparency over

companies' approaches to tax and tax compliance. Specifically, the Platform recommends that companies should be required to disclose whether (or the extent to which) the company's board is directly responsible for tax compliance, how the company seeks to comply with the letter and spirit of the applicable tax laws, and what measures the company has in place to prevent tax avoidance practices. (iv) Diversity of board members: the Platform considers that requirements analogous to the ones falling under the decent-work objective be adopted in relation to board composition, diversity and non-discrimination based on factors such as gender and race. (v) Employee representation on corporate boards: the Platform considers employee representation to be essential to social dialogue within companies. Accordingly, it recommends that worker representatives should be given the chance to take part in the work and meetings of corporate board.

2. Corporate governance of ESG The Platform considers that two sustainability-related aspects should be emphasised as part of companies' corporate governance:

(i) Sustainability competencies in boards: risk management is a key task of any board of directors. This includes risks to the company's business and competitive position ("outside-in") and risks caused by the company ("inside-out"). Some of these risks may be social or environmental. To manage these risks, appropriate skills are needed. The Platform recommends that companies be required to publish a skills matrix stating how many board members have the sustainability skills that are relevant to the company's business. (ii) Transparency and incentives on sustainability targets: the Platform considers (in the same way as what the Commission implicitly signalled, as part of its recent Corporate Sustainability Due Diligence Directive proposal) that executive pay

should be linked to the ESG objectives set by company. This could affect long-term incentive plans.

e. How to adopt a Social Taxonomy in Uzbekistan.

In Uzbekistan, the Social Taxonomy framework can play an important role in assessing and monitoring social progress by providing a more organized basis to measure socio-economic development. It can provide deeper insight into the current state of attainment gaps between socially disadvantaged groups such as those belonging to ethnic minorities or belonging to lower socioeconomic backgrounds. Furthermore, it would allow for data-driven monitoring policies keeping up with swiftly changing dynamics within the even more rapidly changing external environment that Uzbekistan will have to contend with in coming years. It would also allow resource allocation decisions based on insights from data collected from wide-spread surveys instead of relying merely on traditional methods not necessarily backed by evidence or scientific data.

Furthermore, Social Taxonomy could help strengthen internal measures of guarding economic performance among Uzbeks so that economic inequalities are better tackled both regionally and nationally using tools like regional income targeting schemes and labour market interventions; both of which are greatly needed given a large income deficit that persists within different parts of Uzbekistan largely driven by education disparities.

As my own consideration as one of the ordinary citizens of Uzbekistan, I can count some alternative possibilities of bringing EU economy in Uzbekistan, by counting on the logic of ESG's first aim to help to the economy by improving the environmental condition of the country. And It is one of the common solution to the problem that is damaging our

ecological environment is, to run a recycling factories. Unfortunately as a result of no recycling activities holding in Uzbekistan, the food, cooking, factories are have to serve to the client with a new disposable dishes in daily routine. And the rubbishes which are collected daily are buried under the land, which, as a result making some portion of the countries land inefficient. Instead a land could be used for farming purposes. And the next option here could be also one of the crucial aim of this Portfolio “a Social, Labour standards, human rites” which is - bringing some changes to the Corporate Governing strategies of Uzbekistan. As it was said that, Uzbekistan uses the German Corporate Governance strategy to ruling any kinds of Corporations, Companies, SMEs and i.t. but suspiciousely it seems like we use the Japanese structure instead, which based on connecting the links throughout the whole relatives, and familiars, no matter of the person’s level of fitness to a particular work, and also by proficiency fitnesses. Which seems as the economy of Uzbekistan has been loosing a portion of its professional individuals who could somehow affect to boost the economy, because of the shortfalls of the human rights and discrimination through the country.

Whether or not to include nuclear and gas energy in the EU taxonomy.

- **Under strict condition**, specific nuclear and gas energy activities are included in the list of economic activities covered by the EU taxonomy and apply since January 2023.
- The criteria for the specific gas and nuclear activities are in line with EU climate and environmental objectives and will help accelerate the **shift from solid or liquid fossil fuels**, including coal, towards a climate-ntreal future.
- The complementary delegated act builds on several studies carried out by the Commission to get an informed opinion.

Benefits of high taxonomy score, Objective to lower the cost of capital,

To help to banks to borrow to companies at a lower interest rates if they operate more sustainability.

With a high taxonomy score, investors may be able to:

- ◆ Access lower cost of capital
- ◆ Increase investor attractiveness
- ◆ Demonstrate environment, Social, Governance (ESG) performance to stakeholders
- ◆ Issue Green Bonds
- ◆ If listed, be included in mutual funds labelled as sustainable/green.

f. Conclusion

To conclude, in the research above, it was clarified that the EU Social Taxonomy is a proposed EU regulation that would aim to set out a list of socially sustainable activities with a similar structure to the present EU legislative environment on sustainable finance and sustainable governance. Social taxonomy in the EU is an advanced classification system used to classify a variety of social phenomena, such as unemployment, poverty and inequality across regions. Furthermore, as it was seen that a Social taxonomy-based policy frameworks in the EU address various social issues such as inequalities, migrant integration, welfare legislative enforcements among others. The system has evolved over time through discussions with civil society organisations and relevant stakeholders while considering European Commission's strategic orientations and priorities(2020). Relatedly, developing quantifiable criteria for a Social Taxonomy may be more challenging in some instances (compared to measuring pollution or other environmental sustainability factors), which is why a combination of quantitative and

qualitative criteria will likely need to be employed. In overall, the concept and framework for a social taxonomy have been under development alongside the environmental taxonomy, including European social rights.

The Platform put its goal to reduce greenhouse gas emissions to zero by 2050. In addition, diversity, equity and inclusion, along with other social issues, have become a key part of the overall sustainability discourse. To reach its goal, a new additional platform was opened in 2021 - ESG (Environmental, Social and Governance). ESG stands for **Environmental, Social, and Governance**. Investors are increasingly applying these non-financial factors as part of their analysis process to identify material risks and growth opportunities.

The Platform made a substantial contributions, recognises that reducing the negative impact of business operations can bring “transformative social improvements” for those affected. The Platform recommends to prioritise high-risk sectors, where negative impacts are easier to identify . Examples may include, in relation to health and safety for instance, mining, manufacturing, or construction. The second substantial contribution category relates to the provision of certain economic goods, services or infrastructure that are essential for ensuring adequate living standards. Examples of this are food and water, housing, healthcare, education, transport and telecommunications. The third category of substantial contribution relates to activities which enable improved social performance in other activities. The Platform cites as examples social audits, stakeholder dialogues, mediation services or complaint mechanism, and testing aimed at detecting harmful substances in consumer products. The selection of sectors for enabling activities will

reflect the one that applies to the other substantial contribution categories.

Overall, as a third main aim of this research to examine the affection of Social Taxonomy to the country's living standards and its economy, it was known that, while adapting Social Taxonomy frameworks will involve addressing challenges pertaining to data collection process among other things, it remains undeniable how much this model could potentially benefit social progress monitoring abroad particularly in Uzbekistan when accompanied with some form of effective implementation plan laid out either through government means or through additional collaborations implemented through emerging non-profit organisations operating all throughout Uzbek's vibrant cultural landscape.

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