CORPORATE SUSTAINABILITY REPORTING AS A MEAN FOR ENGAGED PRIVATE SECTOR

Regulatory framework and reporting practices on corporate sustainability reporting practices in North Macedonia

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The study "Corporate sustainability reporting as a mean for engaged private sector - Regulatory framework, corporate sustainability and reporting practices in North Macedonia" was developed with the support of the Balkan Civil Society Development Network (BCSDN), within the scope of activities foreseen through the MoU between BCSDN and the CSO Partnership for Development Effectiveness (CPDE), funded by the European Commission, the Irish Aid, and the Austrian Development Agency.

Year of production: 2022

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List of abbreviations

CEU	Council of the European Union
CGC	Corporate Governance Code
CSO	Civil society organisations
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
EC	European Commission
EP	European Parliament
EU	European Union
GHG	Greenhouse gas
GRI	Global Reporting Initiative
ILO	International Labour Organisation
JSC	Joint stock Companies
KPIs	Key Performance Indicators
MSE	Macedonian Stock Exchange
NFRD	Non-Financial Reporting Directive
OECD	Organisation for Economic Co-operation and Development

Executive summary

Transparency on the companies' actions and results in dealing with environmental and social issues addresses markets information asymmetries. Regulatory framework that enforces disclosure of such information ensures level playing field, while enabling informed decision making, both by investors and consumers. The EU law require large companies and financial institutions to disclose information on the ways they operate and manage social and environmental challenges. The new CGC and the ESG Reporting Guidelines of the MSE are first steps to introduce such rules for companies in North Macedonia and an effort to alignment with the EU and global best practices in regards to environmental social and governance reporting.

This research report presents and compares the reporting requirements in the EU and North Macedonia. The report surveys sustainability disclosure practices among Macedonian companies and presents the three best performing companies. The analysis shows that the CGC do not reflect in full the disclosure requirements of the EU. The scope of application has been altered to reflect the size of listed companies at the Macedonian Stock. The Code principles and provisions and the voluntary ESG Reporting guidelines allow companies to circumvent reporting requirements and may even lead to unequal treatment between companies. Even with a lowered bar in terms of terms of depth and breadth in the reporting requirements, only few of the observed companies report on most of the minimum recommended disclosures. Companies disclose policies and actions they take, at least declaratively, but to a lesser extend report on the progress, outcomes and results of those policies and actions. Further efforts in rising awareness and capacity building for companies are needed to motivate companies to practice sustainability reporting. Progressive alignment with the EU rules on this matter would not only be a necessary step for the country in the following years, but would also benefit companies, particularly the ones active on European markets.

Introduction

The companies' social and environmental footprint gains increasing importance in shareholders and investors, as well as consumers' decision making. It is policy makers, civil society organizations' interest and the society as whole that the private sector is compliant with national and international legislation, contributes in achieving the sustainability targets, and to actively contribute to the wellbeing and development of local communities. The good corporate governance practices which incorporate sustainability risks in decision-making processes contribute to maintaining companies' reputation and protection of the shareholders' interests in medium and long term. In the emerging interests beyond their financial results, companies are expected and pressured to justify their decisions and actions. In order to ensure level playing field and to address market information asymmetries, international organisations and countries around the world have adopted voluntary sustainability reporting frameworks and, in some cases, regulatory frameworks that enforces disclosure of companies' deeds in dealing with environmental, social and governance matters.

The EU for the first time in 2014 adopted rules that impose obligations for non-financial reporting in areas like environmental and social matters, treatment of employees, diversity policies, respect for human rights, anti-corruption and bribery. These reporting requirements were introduced to benefit both the societal actors and the companies themselves. It enables investors, CSOs, consumers, policy makers and other stakeholders to evaluate the non-financial performance of large companies. Equally, if not more important, it promotes responsible business conduct and mobilises investors' funds in sustainable business practices[1]. With this approach, EU aims to establish an internal market that works for the sustainable development of Europe in line with the commitments in the Paris agreement and Sustainability Development Goals.

North Macedonia is a candidate country for EU membership. As such, it is not obliged to comply with the EU legislation. Nonetheless, the country is expected to gradually align national laws with the EU acquis and ensure their implementation, including in this area. A regulatory framework that would requires companies to take into consideration environmental, social and governance issues in their business strategy and to report on their achievement is beneficial for the country even without EU membership perspective. In 2021, the MSE adopted a new CGC that for the first time introduces obligations for listed companies' governing boards to take account on companies' environmental, social matters, governance issues in their decision making and reporting requirements on these matters. The MSE published ESG Reporting Guidelines which supplement the CGC and give guidance for companies reporting.

[1] European Commission, 'Corporate Sustainability Reporting' <https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en> accessed 5 June 2021.

Research on non-financial and sustainability information reporting in North Macedonia exists, but is fairly limited. Previous studies are either industry specific,[2] analyse disclose practices among Macedonian companies as part of wider region[3] or are fairly outdated.[4] These studies are published prior the adoption of the MSE's CGC and do not analyse companies' reporting vis-à-vis the new disclosure requirements. This research seeks to fill in this gap in three ways. It analyses the differences in the reporting requirements for companies established or operating in North Macedonia in view of the EU legislation. Furthermore, it provides evidence on listed JSC' sustainability reporting practices across different industries. Lastly, it identifies best performers among Macedonian companies and present their sustainability practices.

The research report has five sections. Section 1 explains the methodology used in this research. Section 2 elaborates the disclosure requirements in the EU, including the changes from non-financial to sustainability information in view of the new directives and regulations. The disclosure requirements for companies in North Macedonia and the differences with the requirements in the EU are presented in Section 3. The result from the analysis on non-financial and sustainability disclosure practices among listed JSC at the MSE are presented in Section 4. This section also includes the case studies of the three best performing companies. The Conclusions and recommendations are presented in the Section 5.

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[2] Marina Trpeska and others, 'Banks' Corporate Social Responsibility (CSR) Disclosure and Their Role in the Betterment of Society in the Republic of North Macedonia' 18 FACTA UNIVERSITATIS 325.

[3] Nikola Levkov and Nikolina Palamidovska-Sterjadovska, 'Corporate Social Responsibility Communication in Western Balkans Banking Industry: A Comparative Study' <https://www.researchgate.net/publication/335453100_CORPORATE_SOCIAL_RESPONSIBILITY_COMMUNICATION_IN_WESTERN_BALKANS_BANKING_INDUSTRY_A_COMPARATIVE_STUDY>.

[4] Corporate social responsibility for all, 'Macedonia National Review Report on Csr' <http://csrforall.eu/en/icerik/reports/Macedonia-National-Review-Report.pdf> accessed 4 June 2022.

Section 1: Methodology

Three methodological approaches are used for this research. The research report is divided in four sections. The first methodological approach combines descriptive and comparative analysis on relevant legislation and policy frameworks in the EU and North Macedonia. Hard law, in particular directives and regulations, and soft law, including guidelines and communications, were analysed to identify the obligations on non-financial and sustainability reporting in the EU. Laws, codes and guidelines were analysed to identify and compare the reporting obligations on the same matters in North Macedonia. The relevant legislation was gathered trough desk research, with 15th of June 2022 being cut-off date. Any changes to legal texts following this date are not incorporated in the analysis. The analysis is presented in the second and third section of this report.

The second methodological approach combine qualitative and quantitative content analysis. This approach is used in order to identify and analyse the reporting practices among Macedonian companies, including to identify the best performing companies. Content analysis is used to codify text in different categories. The research relies on secondary data from companies' documents, including policies and annual reports from 2020[5] and the companies' websites, gathered between 21st of April and 30th of May. Documents adopted and publish by companies following these dates are not incorporated in the analysis. A coding scheme with disclosure items was developed based on the reporting requirements in the ESG Reporting Guidelines. The coding scheme is available in annex 1. Binary coding was applied in this research. A disclosure point "1" was coded for each disclosure item that the researcher could find information about, and coded "0" if otherwise. To illustrate, a sentence in a company report or on a company website that provides information on the company's activities on a disclosure item "human rights" or "recycling" would result in coding "1" for that item. If a company policy, say anti-corruption policy, is available for review on the company website, "1" is coded for this disclosure item. If no sentence is identified that provides the information or a document is not available for review, a score "0" is coded for a given reporting item. A sentence in a company document or its website that mentions just the terms of a reporting item of interest, like "anti-corruption and bribery", or "labour standards" or "recycling", without a statement that explains

[5] Majority of the companies did not hold their Annual Assemblies and not have published reports for 2021 at the begging of the data collection process. The data from the annual reports of 2020 were analysed for all companies in the study population.

company position, actions or results in the given area is coded as "0". If a company has disclosed information for each item included in the coding scheme it would receive maximum number of disclosure points, which is 29. If no information is identified in a company report and website for any of those items, it would receive 0 disclosure points. The criteria to selected best performers is the maximum score a company has in the coding scheme, as the sum of the disclosure score for all items observed. The study population comprises of 27 listed JSC for which the MSE informed that the new CGC should apply as of 2021. The companies list is available in Annex 2. The results of this analysis are presented in the third section of this research report.

The third methodological approach is case study. The sustainability and reporting practices of the best performing companies and presented in three case studies. The criteria for selection of the best performing companies in terms of sustainability reporting was the total score on the disclosed items as sum of the results per disclosure category, with maximum score of 29 and 0 as minimum. The case studies of the companies that have been identified as best performers are presented in the fourth section of this report.

Section 2: Corporate sustainability reporting in the EU framework

The EC set sustainable growth among the twelve levers of the Single Market Act. This plan was adopted in order to boost the fight against climate change as integral part of the EU's ambition to boost growth and strengthen market confidence. Among the proposed actions, the Commission envisioned a new legislative proposal that would oblige large companies across different sectors to disclose information on their efforts to tackle social and environmental issues in their annual reporting.[6] This intention was reiterated in the renewed EU strategy for CSR 2011-2014, stressing the intetion to offer a level playing field for companies working in different member states.[7]

2.1. Non-Financial Reporting Directive

The Directive 2014/95/EU, amending Directive 2013/34/EU, was as adopted and set the rules on disclosure of non-financial and diversity information in the EU. The EC has published two separate reporting guidelines in order to clarify and help companies identify what information should they report. The non-binding Guidelines on non-financial reporting (methodology for reporting non-financial information), published in 2017, sets the key principles on non-financial reporting, requirements on the content of the companies' reports as well as examples and KPIs that companies can use in their reporting.[8] As a deliverable of the Action plan on financing for sustainable growth from in March 2018, the Guidelines on reporting climate-related information were adopted. These guidelines provided rules on how companies should structure their disclosures, what information to disclose about the policies they have adopted and the due diligence processes, principal risks and their possible adverse effects, climate risk management as well as KPIs that companies may use in their reporting.[9] The new guidelines supplement the Directive and the existing guidelines from 2017, and all remain applicable to date.

Scope of application

As mentioned previously, these rules apply to certain large companies only. Public-interest entities and parent companies of a large groups with more than 500 employees have to comply with this directive.[10] Subsidiaries are exempted only if the parent companies have

[6] European Commission, Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions Single Market Act Twelve Levers to Boost Growth and Strengthen Confidence 'Working Together to Create New Growth' 2011 [COM/2011/0206 final].
[7] European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions a Renewed Eu Strategy 2011-14 for Corporate Social Responsibility [COM/2011/0681 final].
[8] European Commission, Communication from the Commission — Guidelines on non-financial reporting (methodology for reporting non-financial information) 2017 [OJ C 215] 1.
[9] European Commission, Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information 2019 [OJ C 209] 1.
[10] EUR-Lex, Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (Text with EEA relevance) 2014 [OJ L 330] 1.

incorporated information on their activities in a consolidated management report.[11] In practice, the companies that fall under the scope of this directive are large listed companies, large banks and insurance companies provided that they have more than 500 employees.[12] In line with the "think small first" principle, and with the view to not impose additional administrative burdens, this directive does not apply to small and medium size enterprises.[13]

The Member States are allowed to widen the scope of the Directive. This freedom resulted with some altering these criteria and by that, increased the number of companies to which these rules apply. For example, Public Interest Entities with 250 employees in Luxemburg and all companies with over 250 employees in Sweden have to comply with the directive, and even companies with just 10 employees, net turnover of over EUR 700,000, and balance sheet total of over EUR 350,000 operating in Greece.[14]

Disclosure requirements

The companies that fall under the scope of this Directive should include non-financial information in the management commentary, which could be a management statement in a non-financial statement or a consolidated management report as part of the consolidated non-financial statement. Companies have to disclose material information relating to: [15]

- Environmental matters
- Social and employee matters
- Respect for human rights
- Anti-corruption and bribery
- Diversity on boards of directors (age, gender, educational and professional background)[16]

The directive prescribes that companies should disclose material information to the extent necessary to understand the company's development, performance, position and impact of its activity on the matters presented above, in regards to: [17]

- Company business model
- Policies in relation to those matters and due diligence processes
- The outcome of those policies
- Principal risks related to company's operations to those matters and how it manages those risks
- Non-financial KPIs

The so-called safeguard clause gives EU member states the freedom to allow companies to omit information in their reporting on any of the mentioned topics and disclosure items. When a disclosure of such information may be detrimental to the commercial position of a company, its administrative, management and supervisory bodies may not disclose requested information.[18] Even so, the management statement must provide a justified opinion for such omission.[19]

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[11] ibid.
[12] European Commission, 'Corporate Sustainability Reporting' (n 1).
[13] EUR-Lex Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (Text with EEA relevance) (n 10).
[14] Datamaran, 'The Non-Financial Reporting Directive: What You Need To Know' <https://www.datamaran.com/non-financial-reporting-directive/>.
[15] EUR-Lex Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (Text with EEA relevance) (n 10). Art. 1, para. 1
[16] ibid. Art. 1 (2)
[17] ibid. Art. 1 (3)
[18] ibid. Art 1 (1) and (3)
[19] ibid. Art 1 (1) and (3)

Materially in non-financial disclosure

As stressed several times already, companies should disclose information that is *material* in its essence. This is the first and most important principle of the NFRD. The application of the materiality principle gives instruction on how companies should identify what information, in their own context, is deemed necessary and useful for the company stakeholders to have. Materiality of information in a broader accounting context is defined in the Accounting Directive as:

"the status of information where its omission or misstatement could reasonably be expected to influence decisions that users make on the basis of the financial statements of the undertaking."[20]

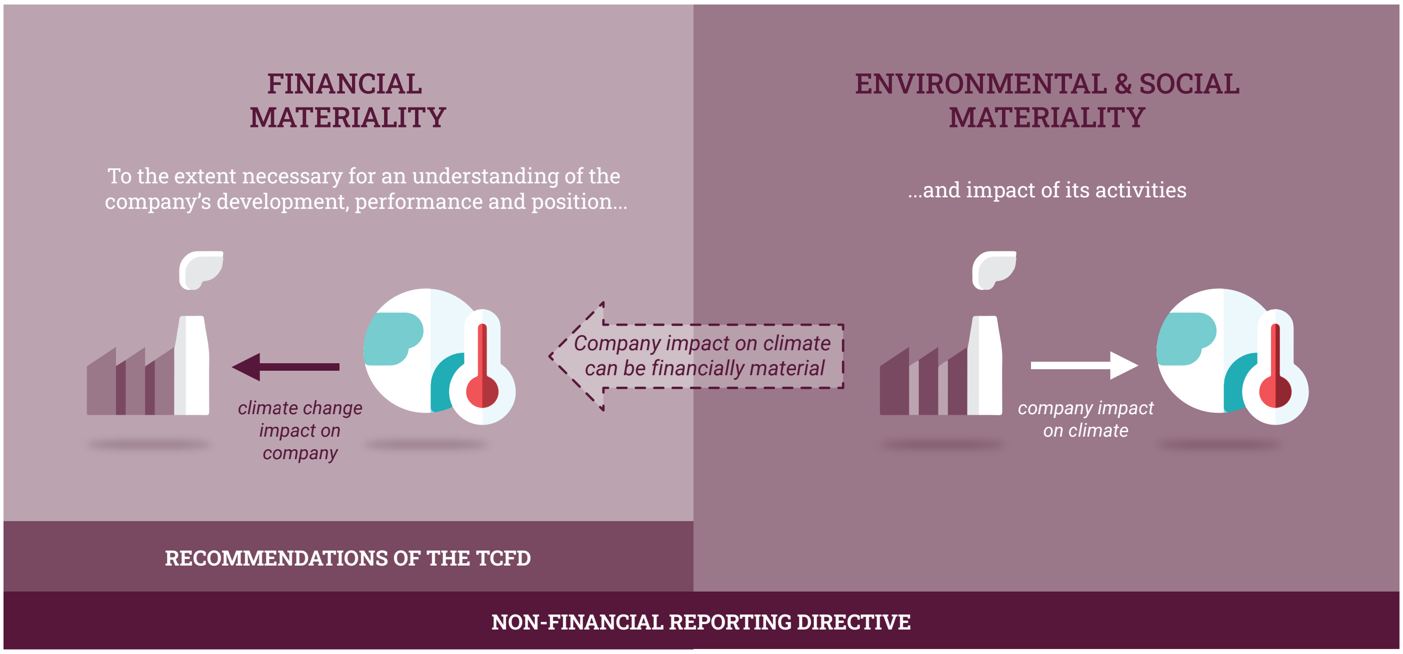
The two guidelines published by the EC aim to clarify how companies should assess if an information is material in context of non-financial reporting. As pointed out previously, companies should disclose material information that would allow the users of this information to understand, on one hand, how environmental, social and employee matters, human rights, anti-corruption and bribery and diversity issues affects the company's position, performance and development, and on the other hand, the impact of company's activities on these issues in a broader societal context.[21] This two-fold view of materiality is called "double materiality" in the non-financial reporting in the EU. The two perspectives of materiality are defining as:[22]

- Financial materiality, or the outside-in perspective, is related to information important to understand company's development, performance, position. Companies should explain how the external environment affect their business. In this regard, companies should elaborate how they are affected financially and in terms of the value of the company. This information is of most value to investors.

- Environmental and social materiality, or the inside-out perspective, is related to material information in relation to the impact of the company's activities, or how the company affects the external environment. Such information is of primary interest of citizens, consumers, employees, business partners, communities and CSOs, but also for investors that seek to be better understand and measure their investment portfolios environmental and social impact.

[20] European Commission Communication from the Commission — Guidelines on non-financial reporting (methodology for reporting non-financial information) (n 8).
[21] EUR-Lex Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (Text with EEA relevance) (n 10). Art 1. Para 1 and 3
[22] Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information 2019 [OJ C 209] 1.

Figure 1 Double materiality of the Non-Financial Reporting Directive in the context of reporting climate-related information



When company representatives are deciding what information should they disclose, besides the interests and expectations of their stakeholders, they should take into consideration the company business model, strategy and principal risks, and the impact of the companies' activities, the public policy and regulatory drivers and the main issues of their industry. [24]

In their disclosures, companies are should provide "breadth and depth" of information for their stakeholders in a fair, balanced and comprehensive way.[25] The guidelines provide practical examples from different sectors and KPIs that companies could consider using to satisfy this requirement. For example, the Guidelines on reporting climate-related information suggest using metrics on GHG emissions and reduction targets, energy consumption and/or production by energy commodities, energy efficiency targets, sustainable products and services, and green finance.[26] Non the less, the guidelines developed by the EC are non-binding. Under the current rules, companies are free to use and should inform if they are using other national or international frameworks, and recognised international standards instead.[27]

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[23] European Commission, 'New Guidelines on Reporting Climate-Related Information' <https://ec.europa.eu/info/sites/default/files/business_economy_euro/company_reporting_and_auditing/documents/190618-climate-related-information-reporting-guidelines-overview_en.pdf>.
[24] European Commission Communication from the Commission — Guidelines on non-financial reporting (methodology for reporting non-financial information) (n 8).
[25] ibid.
[26] European Commission Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information (n 9).
[27] EUR-Lex Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (Text with EEA relevance) (n 10). Rec. 9

Table 1 Recommended guidelines in the Non-Financial Reporting Directive

European Union based	National or international frameworks	International standards
Eco-Management and Audit Scheme	United Nations Global Compact	Global Reporting Initiative
Guidelines on non-financial reporting	The Guiding Principles on Business and Human Rights implementing the UN 'Protect, Respect and Remedy' Framework,	Other international standards
Guidelines on reporting climate-related information	The Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises,	
	The International Organisation for Standardisation's ISO 26000	
	The International Labour Organisation's Tripartite Declaration of principles concerning multinational enterprises and social policy for possible international frameworks	

Public consultations on the Non-Financial Reporting Directive

At the beginning of 2020, the EC lunched a consultation process to review the application of the NFRD and the scope of this directive.[28] As part of the consultation process, the EC published a report summary on the public consultations[29] and commissioned a research study on the effects and the future perspective on the NFRD.[30] The issues raised by respondents could be summarised as follows:

• **Standardisation as a solution for deficient information.** The majority of respondents consider that non-financial information reported is not comparable between companies, has reliability issues and that companies do not disclose all relevant information. On the other hand, reporting companies faced issues when deciding what information to report, while majority of them received request for information from rating agencies or CSOs. Given the challenges encountered, it should not come as a surprise that high percentage of information reporting and receiving parties[31] believe that a common reporting standard could address the problems they have encounter rather than having in use different global standards. Majority of respondents consider that simplified standard for small and medium sized enterprises should be applied.

• **Widening the scope of the Non-Financial Reporting Directive.** The number of companies that should comply with the NFRD is much larger than what is happening in practice, while some companies disclose non-financial information voluntarily. Above all, there is interest to widen the scope of the NFRD to cover companies that are not currently targeted.

• **Materiality.** The definition and guidelines on materiality assessments are not sufficient for companies to understand what information is relevant for their stakeholders. A clarified definition and guidelines with examples and good practices would be useful. There was a strong support for a requirement on companies to disclose their materiality assessment process in order to put pressure on rating agencies and reporting companies to deliver accurate information.

• **Other matters.** The consultation process showed a strong support for stricter audit requirements, digitalisation and machine readable non-financial information. Half of the respondents support disclosure in the management report with no option of publishing information in a separate report.

[28] European Commission, 'Review of the Non-Financial Reporting Directive: Online Public Consultation and Webinar' <https://ec.europa.eu/newsroom/env/items/676093/en>.
[29] European Commission, Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions Action Plan: Financing Sustainable Growth 2018 [COM/2018/097 final].
[30] Willem Pieter de Groen and others, 'Study on the Non-Financial Reporting Directive - Final Report' (European Commission 2020).
[31] 11 % believe common standard would to some extent resolve the problems identified but not much, 40% of respondents answered "To a reasonable extent" while 41% "To a very great extent", same percentages for the groups "Users Only" and "Preparers Only"

2.2. Sustainability disclose in the Action plan for financing sustainable growth

In March 2018, the EC announced its Action plan for financing sustainable growth with the aim to foster sustainable investment and make markets more transparent.[32] In line with this approach, the EC proposed fitness check of EU legislation and revision on the guidelines on non-financial information and adoption of new regulations in the pursuit to foster transparency and long-termism.[33] This section analyses the differences between the proposed CSRD and the existing NFRD. Furthermore, it explores the novelties it brings together with the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation. The section concludes with a overview table on transparency and sustainability disclose requirements in the EU.

2.2.1. Corporate Sustainability Reporting Directive

In light of the results of the consultation process elaborated above, instead of revising the NFRD or the guidelines, the EC announced a proposal for a new directive in the last quarter of 2020.[34] The EP welcomed the EC plans, and underlined the need to widen the scope of the NFRD and the need to clarify the application of the materiality principle to environmental, human rights and governance matters.[35]

The result of this process was a proposal for a new CSRD that would amend the NFRD. The analysis on the changes this directive would bring in terms disclosure requirements in this section is based on the Commission proposal from 21st of April 2021. This directive is yet to approved by the CEU and the EP. On 21 June 2022, in trialogue negotiations, the EP and the CEU reached a provisional political agreement, but the full text of the agreed version of the CSRD has not yet been made public.[36] With this disclaimer in mind, the major novelties of the proposed directive in its draft text in terms of scope and disclosure requirements could be summarised in the following order:

More companies would fall under the scope of the reporting requirements

The scope of the directive would include all large companies and listed companies, including listed small and medium enterprises.[37] Subsidiaries would again be exempted if parent companies included information on their activities in a consolidated management report. Listed small and medium enterprises would, however, be granted a transition (phasing-in) period of three years after these rules enter into force.[38] It is expected approximately 49 000 companies to fall within the scope of this directive, compared to the 11 600 companies under the NFRD. Micro listed companies (or start-ups) are excluded.[39]

[32] European Commission Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions Action Plan: Financing Sustainable Growth (n 29).
[33] ibid.
[34] European Commission, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Adjusted Commission Work Programme 2020 2020 [COM/2020/440 final].
[35] European Parliament, European Parliament resolution of 17 December 2020 on sustainable corporate governance (2020/2137(INI)) 2021 [OJ C 445] 94.
[36] European Parliament, 'Corporate Sustainability Reporting Directive (CSRD) In "A European Green Deal"' (Legislative Train Schedule, 5 June 2022) <https://www.europarl.europa.eu/legislative-train/theme-a-european-green-deal/file-review-of-the-non-financial-reporting-directive>.
[37] European Commission, Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting 2021 [COM/2021/189 final]. Art. 1 para. 3
[38] ibid. Art. 1 (3)
[39] In the EU, a micro-company is a company that does not exceeds two of the following criteria: more that EUR 350 000 balance sheet total; net turnover over EUR 700 000 and/or more than 10 employees on average during the financial year: 10.

Even though the new directive has widened its scope, the safeguard clause from the NFRD remain an option for all companies. In cases when the disclosure of given information would *"be seriously prejudicial to the commercial position of the group, provided that such omission does not prevent a fair and balanced understanding of the group's development, performance, position and impact of its activity"*, with justified opinion from the companies' bodies, the member states may allow a company to omitted such information in its reporting.[40]

Table 2 Scope of the directives

Non-Financial Reporting Directive	Corporate Sustainability Reporting Directive
Large public-interest entities with 500 employees	All large companies and listed companies
Exemption on subsidiaries	Listed small and medium enterprises (phasing-in)
Small and medium enterprises excluded	Exemption on subsidiaries
Safeguard clause	Listed micro-companies excluded
Report or explain	Safeguard clause
	Report or explain

The reporting requirements seek more specific and detailed information

The management report should provide information on the company's activities' impact on sustainability matters, and information on how sustainability matters affect company's development, performance and position. With this provision, the term "non-financial" is substituted with the term "sustainability".[41] It may come as obvious, but these changes are not just a change in the terminology, but rather a change in the substance of reporting requirements and disclosure areas. This change notes the shift of the EU from non-financial reporting to sustainability reporting. The areas covered in the NFRD (environmental, social and employee matters, respect for human rights, anti-corruption and bribery matters) are changed with three broad subject matters. The new directive prescribes company's disclosure to include information on environmental factors, social factors and governance factors.[42]

Non the less, the CSRD incorporate the five areas covered by the NFRD in these subject matters and introduces areas that companies should report on that previously were not required. In particular, anti-corruption and anti-bribery matters are incorporated in the governance factors. On governance factors, companies would have to disclose information on the companies' bodies role on sustainability

[40] European Commission Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (n 37). Art. 1 (7) 7
[41] ibid. Art 1 (3)
[42] ibid. Art. 1 (3)

matters, and their composition, business ethics and corporate culture, political engagement and lobbying activities, management and quality of relationships with business partners, and internal control and risk management systems, including in their reporting.[43] The aspect on diversity matters is part of a broader theme equal opportunities, among the social factors. Other factors on diversity also include gender equality and equal pay, training and skills development, and employment and inclusion of people with disabilities.[44] The companies should report on respect on human rights as part of the social factors along with information on respect to fundamental freedoms, democratic principles and standards of the EU's and International conventions.[45] Among the social factors, the directive would require companies to also report on the working conditions, and health and safety, and the work environment the companies offer.[46] On environmental factors, the companies should report how climate change, climate change adaptation, water and marine resources, resource use and circular economy, pollution, biodiversity and ecosystems affect the business and how it contributes to this problem or their improvement.[47] Some of the new factors introduced in the CSRD were, however, covered in the NFRD Guidelines. For example, disclosure on working conditions were recommended disclosures in the social factors, while biodiversity, protection of natural recourses, environmental impact from energy use among recommended disclosures in the Guidelines for the environmental matters. The difference is, that under the proposed directive, these disclosure items would be obligatory to report on, unlike the non-binding guidelines currently in place.

Table 3 Sustainability disclosure, reporting formats and safeguard clause

	Non-Financial Reporting Directive	Corporate Sustainability Reporting Directive
Areas covered	• Environmental matters • Social and employee matters • Respect for human rights • Anti-corruption and bribery matters • Diversity on governing boards	**Environmental factors** • Climate change mitigation • Climate change adaptation • Water and marine resources • Resource use and circular economy • Pollution • Biodiversity and ecosystems **Social factors** • Rqual opportunities • Respect for the human rights, fundamental freedoms, democratic principles and standards

[43] ibid. Art (4)
[44] ibid. Art (4) 2c
[45] ibid. Art (4) 2b
[46] ibid. Art (4) 2b
[47] ibid. Art (4) 2a

		Governance factors • Company's bodies' role on sustainability matters • Business ethics and corporate culture • Political engagements, including lobbying • Business partners relationships • Internal control and risk management systems
Double materiality	• Environmental and Social materiality (inside-out perspective) • Financial materiality (out-side in)	• Clarified Impact materiality (inside-out perspective) and Financial materiality • Requirement to use quantitative data reported in the annual financial statements
Requested information	• Business model • Description of the policies, including due diligence processes implemented • Outcome of those policies • Principal risks, likely adverse impacts, and risk management risks • Relevant non-financial KPIs	• Business model and strategy, including opportunities and resilience to sustainability risks • Companies' policies on sustainability matters • Description and progress in me achieving set targets • Companies' bodies role on sustainability matters • sustainability due diligence process • adverse impacts related to companies' value chain and actions to prevent, mitigate or remediate • indicators in relation to these disclosures • intangibles
Reporting format	• Management report	• Management report
Reporting framework	• European Union based frameworks • National or international frameworks • International framework and standards	• Sustainability reporting standards with sector-agnostic and sector-specific disclosure requirements • Sustainability reporting standards for small and medium sized enterprises

Not only that companies would have to report on more items, they would also have to provide more depth of information in their management report. Companies should include necessary information not only about to their business model, but also about their strategy, anticipated threats and opportunities, and companies' resilience to sustainability risks. The companies should disclose policies on sustainability matters and inform on the progress in achieving their set targets.[48] Companies would have to report on the role of the administrative, management and supervisory bodies with regard to sustainability matters as well as on intangibles like intellectual, human, and social and relationship capital. The reporting requirements on due diligence process, adverse impacts connected with the companies' value chain and actions to prevent, mitigate or remediate actual or potential adverse impacts, and to report using indicators remain obligation under the proposed directive. the only Magazine in Albania in this regards "The Philanthropy Magazine".[49]

• Mandatory EU sustainability reporting standards and clarified materiality principle

The CSRD foresees adoption of sustainability reporting standards that should be used by companies that fall under the scope of this directive, and sustainability reporting standards for small and medium sized enterprises that would be proportionate to their capacities and characteristics. The Financial Reporting Advisory Group (EFRAG), tasked to assist the developed the standards, has already published a report with proposals for a relevant and dynamic EU sustainability reporting standard. This report clarifies how the double materiality approach should apply under the new directive. The reported information on all three factors should have the outside-in perspective, as well as information necessary to understand in-side out perspective:

- In regards to the outside-in perspective, now labelled as impact materiality, the European Financial Reporting Advisory Group suggest that companies should report on the impact of the company's activities in *its own as well as its value chain value operations on actual or potential significant impacts on people and the environment* using monetary quantitative, or qualitative data, and the dynamic relationship between them[50]

- In regards to the in-side out perspective, now labelled as financial materiality, the companies' reporting should encompass all sustainability risks and opportunities that may positively or negatively affect, on short, medium or long term the reporting company's development, performance and position, including with financial data used in the financial reports.[51]

[48] ibid. Art. 1 (3) 2
[49] ibid. Art 1 (3) 2
[50] European Financial Reporting Advisory Group, 'Final Report Proposals for a Relevant and Dynamic EU Sustainability Reporting Standard-Setting' (2021).
[51] ibid. p. 75

When identifying material information relevant in both perspectives companies' bodies should take into consideration the severity in terms of scale, scope and remendability, and likelihood of an actual and potential positive or negative impact from and to environmental, social and governance factors.[52] It is recommended that the standards should determine sector-agnostic (relevant for all companies) and sector-specific sustainability disclosures requirements. Furthermore, the companies should include information on the process used to identify information relevant to disclose.[53]

Other important changes

The CSRD would introduce assurance on sustainability reporting, which were optional requirement under NFRD.[54] The amendments to the Audit Directive[55], would require companies to have a statutory auditor or audit firm carrying out the audit on annual sustainability reporting.[56] In order to make sustainability information easier to be found by users, the companies have to publish data in a machine-readable format.

Table 4 Assurance of sustainability information and machine readability

	Non-Financial Reporting Directive	Corporate Sustainability Reporting Directive
Assurance of sustainability information	Member States may require verification by an independent assurance services provider	Mandatory audit on annual sustainability reporting
Machine readable formats	Not covered	Required

2.2.2. Sustainable Finance Disclosure Regulation

The regulation on sustainability-related disclosures in the financial services sector obliges financial market participants and financial advisers to publish information on their websites about how they have integrated sustainability risks in their policies, products and investment decision-making process, and financial advisers in their insurance and investment advice. The Regulation aim to reduce information asymmetries in principal-agent relationships by ensuring that end investors (principals) can access information on sustainability risks when financial market participant (agents) invest on their behalf get advice on investment opportunities. The regulation prescribes the specific information and metrics, the form and the place where this information should be published. Financial market participants and financial advisers should publish information in regards to:

[52] ibid. p. 74
[53] European Commission Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (n 37). Art. 1 (4) 2c
[54] ibid. Art 1 (3)
[55] Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC
[56] European Commission Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2013/34/EU, Directive 2004/109/EC, Directive 2006/43/EC and Regulation (EU) No 537/2014, as regards corporate sustainability reporting (n 37). Art. 3 (1)
[57] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Text with EEA relevance) 2019 [OJ L 317] 1. Art. 3
[58] ibid. Rec. 6

- Existence of principal adverse impacts of investment decisions on sustainability factors and statement on due diligence policies in this regard. Companies should clarify the reasons for not considering, and whether and when they intend to consider such adverse impacts[59]

- Information on how their remuneration policies are consistent with the integration of sustainability risks[60]

- Transparency on sustainability risks in their investment decisions and the likely impact on investment returns[61]

- Transparency by financial market participants about the adverse sustainability impact[62] and promotion of environmental or social characteristics of financial products and investments[63]

The companies that fall under the scope of this directive are insurance companies, pension funds, investment funds and alternative investment fund managers, venture capital fund, social entrepreneurship funds, collective investment companies and credit institutions with portfolio management.[64] Insurance intermediaries or investment companies that employ fewer than three persons, are exampled from the regulation, but Member States may decide to extend the scope of this directive to these companies.[65]

2.2.3. Taxonomy Regulation

The Regulation on the establishment of a framework to facilitate sustainable investment, known as the EU Taxonomy, sets criteria to determine if an economic activity is environmentally sustainable and the degree to which an investment is environmentally sustainable.[66] An economic activity may be consider to be sustainable if with its operations contributes to one or more following environmental objectives:[67]

- climate change mitigation
- climate change adaptation
- the sustainable use and protection of water and marine resources
- the transition to a circular economy
- pollution prevention and control
- the protection and restoration of biodiversity and ecosystems.

Furthermore, the economic activity should be carried out in compliance with:[68]

- OECD Guidelines for Multinational Enterprises
- the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the ILO on Fundamental Principles and Rights at Work
- the International Bill of Human Rights.

[58] ibid. Art. 4
[59] ibid. Art. 5
[60] ibid. Art. 5
[61] ibid. Art. 6
[62] ibid. Art. 7
[63] ibid. Art. 8 to 11
[64] ibid. Art. 2 (1)
[65] ibid. Art 7 (1) and (2)
[66] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance) 2020 [OJ L 198] 13. Art. 1
[67] ibid. Art. 1 (a) and (b)
[68] ibid. Art. 18

- Good governance practices in terms of sound management structures, employee relations, remuneration of staff and tax compliance.[69]

The last condition requires the economic activity to be in compliance with technical screening criteria developed by the EC and to not cause significant harm to one or more of the other objectives.[70]

These rules apply to Member States and the EU measures on financial markets, financial market participants that offer financial products, and companies that fall under the scope of the NFRD.[71] The Regulation prescribe the specific information and financial metrics, the form and the place where this information should be published in pre-contractual disclosures, websites and period reports by the financial products issuers and the companies that fall under this directive in relation to a particular economic activity.[72]

[69] European Supervisory Authorities, through a Joint Committee, develop draft regulatory technical standards to specify the details of the content and presentation of the information in relation to the principle of 'do no significant harm'
[70] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance) (n 66). Art. 10 (3), 11 (3), 12 (2), 13 (2), 14 (2) and 15 (2)
[71] ibid. Art. 1 (2)
[72] ibid. Art. 6 to 8

	Non-Financial Reporting Directive and Guidelines	Corporate Sustainability Reporting Directive	Sustainable Finance Disclosure Regulation	Taxonomy Regulation
Scope	• Large public-interest entities with 500 employees	• All large companies and listed companies • Listed small and medium enterprises	• Financial market participants • Financial advisers	• Financial market participants that offer financial products • Companies that fall under the scope of the Non-Financial Reporting Directive
Goal	• Enable stakeholders to evaluate non-financial performance and encourages companies to develop a responsible business practice	• Enable stakeholders to evaluate companies' performance and encourages sustainable business practices	• Address financial market information asymmetries by obliging Inform about how sustainability risks are integrated in policies, products and investment decision-making process, and insurance and investment advice where applicable	• To facilitate sustainable investment classification framework on environmentally sustainable investments and economic activities
Means for achieving its goal	• Disclosure on material information on companies impact on environmental, social, employee, diversity matters, anti-corruption and bribery matters and respect for human rights and how these matters affect the company	• Disclosure on material information on companies impact on environmental, social and governance factors and how these factors affect the company	• Make information on adverse impacts of investment decisions on sustainability factors and due diligence, sustainability risks in investment decisions and likely impact on investment returns, and Integration of sustainability risks in remuneration policies, promotion of environmental or social characteristics of financial products and investments available for investors	• Transparency on if and to what degree an economic activity or investment meet environmental objectives
Reporting format	• Management report	• Management report	• Pre-contractual disclosure • Website • Management report	• Pre-contractual disclosure • Websites • Management report

Section 3: Disclosure of sustainability information in North Macedonia

Companies in North Macedonia have taken actions on environmental, social and governance issues years before any regulation in this area was introduced. An earlier research from 2013 suggest that vast majority of companies provide support for employees[73] and engage with local communities[74] among other social matters. On environmental matters, majority of companies have taken systematic steps to reduce the use of natural resources (77.3%), have taken measures to reduce emissions (73.7%) while much less have recycling policy in place (49%).[75] The survey results reveal that companies have responsible governance practices in place, including risk identification and implementation of anti-corruption and anti-extorsion policies (75.5%), rules on responsible political involvement and contributions (75%) while 67% incorporate environmental, social and ethical criteria in upstream and downstream value chains.[76] However, reporting on these matters is very limited. Only 28% of the surveyed companies report on the actions that take, mostly on the internet.[77] These results should not come as a surprise, given that reporting requirements are gaining traction internationally only in the last decade. A workshop report from 2021 suggests that companies recognise the importance on environmental, social and governance considerations for their business operations, but capacity building to develop knowledge and expertise in this field are needed. International companies that have to comply with international norms and regulations and subsidiaries of international groups based in the country are more advanced on this subject.[78]

The regulatory landscape on environmental, social and governance reporting in North Macedonia is a novelty. Its full implementation is yet to take place. Existing laws that regulate companies reporting do not address these matters in specific. The Company Law obliges the management boards to prepare annual account, annual financial statements and an annual report.[79] The law defines the content of the annual report, but does not refer to environmental, social and governance matters in particular. The latest amendments require JSC to disclose the remuneration of the boards' members, which is one of social and/or governance KPIs under EU reporting requirements.[80] The law on securities require JSC to publish a complete annual report.[81] Companies are not obliged to include information on environmental, social and governance issues in their annual reports.

The new CGC of the MSE and the supplementing ESG Guidelines from 2021 are the first set of rules that obligate companies in the North Macedonia to take actions and disclose information on environmental, social and governance matters. The requirements set by these rules are analysed and compared with the regulatory framework in the EU and presented in this section. Also, the results from the content analysis on the disclosure practices among the companies that fall under the scope of these rules are presented.

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[73] Among other, in terms of healthy and safe work environment (95.2%), continuous training (88.1%), work-life balance (85.5%)
[74] To a different degree, companies claim they support, among others, social initiatives (75.5%), education (70.4%), culture projects (67%)
[75] Corporate social responsibility for all (n 4).
[76] ibid.
[77] ibid.
[78] Macedonian Stock Exchange, 'ESG Reporting Guidelines' (2022) <https://www.mse.mk/Repository/%D0%9A%D0%BE%D0%B4%D0%B5%D0%BA%D1%81/ESG%20Reporting%20Guide.pdf>.
[79] Official Gazette of the Republic of Macedonia, Company Law [Закон за трговски друштва] [28/2004]. Art. 384 para. 7
[80] Official Gazette of the Republic of North Macedonia, Law Amending and Supplementing the Company Law [Закон за изменување и дополнување на Законот за трговските друштва] 2022 [99/2022]. Art. 384 para 7
[81] Official Gazette of the Republic of North Macedonia, Law amending and supplementing the Law on securities [Закон за изменување и дополнување на Законот за хартии од вредност] [57/2010]. Art. 154

3.1. Environmental, social and governance reporting in North Macedonia

The new CGC was adopted by the MSE in October 2021. This code, for the first time, will obligate companies in the North Macedonia to take into consideration the environmental, social and governance issues in their decision-making process and to report on their actions to address these issues. Listed companies are required to submit a questionnaire on compliance with the new governance code to the MSE. The CGC and the questionnaire are supplemented with ESG Reporting Guidelines that help companies to commence their environmental, social and governance reporting. With a step-by step approach the guidelines outline what topics on which e companies should considered disclosing information. The ESG Guidelines provide information on how companies can meet the reporting expectations in North Macedonia, as well as in broader context on the reporting requirements in the EU and the standards used by the international financial community.[82]

3.1.1 Corporate governance code and ESG Reporting Guidelines

The new CGC takes on the premises that stakeholders would trust companies more and that companies would be more successful if they apply ethical behaviour and responsible conduct towards social and environmental issues, and by being transparent in these regards.[83] The main purpose of the Code is to promote effective governance and accountability among listed companies at the MSE.[84]

The code is organised in seven sections, while each of those sections have four sub-sections. The sub-section "purpose" explains the importance of topic covered, the "principles" sub-section describes the objectives that companies should aim to achieve, while the "provisions" of the code define the practices that companies should adopt to meet the objectives of the code.[85] The recommendations sub-section provides examples on good practices that companies are encouraged to follow but are not obligatory.[86] The main topics of each section are presented below, with special attention to the provisions relevant for sustainability disclosure requirements.

Shareholder rights and relations

Companies should establish mechanisms to protect shareholders rights, mechanisms to exercise their rights, including voting and agenda setting at the general assembly, and mechanisms for effective communication with all shareholders.[87] If implemented in line with the principle of this section, these mechanisms would allow shareholders to initiative discussions, and have their say on the course of actions the company which are of their interest, including on companies' actions on environmental and social matters.

[82] Macedonian Stock Exchange, 'ESG Reporting Guidelines' (n 78). p. 6
[83] ibid. p. 6
[84] ibid. p. 6
[85] Macedonian Stock Exchange, Corporate Governance Code for companies listed on the Macedonian Stock Exchange 2021. p. 7
[86] ibid. p. 7
[87] ibid. provisions 1.1 to 1.4

Supervisory boards

The CGC regulates the Supervisory Board's role and relations in oversight and strategic guidance, and supervision over the Company's management body, the composition of the board and its committees, their rules of procedure and board members' remuneration. The code requires the company strategy and the decisions of the governing board that significantly increases the company, its shareholders or its stakeholders risk exposure to be approved by the Supervisory board.[88] The company boards need to inform on financial and non-financial risks and stakeholder engagement.[89] Companies are obliged to act and inform about the actions they take to meet the target of 30% female members on the Supervisory and Management Boards by 2025 in the annual report.[90] The CGC recommends companies to have at least one of its members with expertise in relevant environmental or social issues.[91]

Management boards

The management board should be guided by the interests of the company as well as the interests of its employees and other stakeholders.[92] The board should promote ethical conduct by all employees by adopting a Code of Ethics and system to ensuring compliance and business ethics. The code should be approved by the Supervisory Board and published on the company's website.[93] The remuneration policy for the management board should integrate the company' long-term interests and the interests of all shareholders where the bonuses to the fixed salary are to be based, among other criteria on the implementation of ethical standards and sustainability strategy targets.[94] The companies are obliged to disclose full and accurate data on remuneration of each member on the Management Board in their annual reports.[95]

Conflicts of interest

The provisions in this section outline the situations where the Supervisory and Management Board Members interests may be in conflict with companies interests and actions the boards should take in order to avoid these situations.[96] Internal acts, or provisions of acts, that govern actual and potential conflicts of interest should be adopted by Supervisory Boards. These acts should define what information should the company disclosed on this matter in the annual report.[97]

Risk and control

The principle on risk and control, requires Supervisory and Management Board to put in place structures, policies and procedures to identify, report, manage and monitor the significant risks for the company, to ensure compliance with legal requirements, and have an independent and effective internal and external audit.[98] The risk management systems should be able to identify and manage risks arising from environmental and social issues. The provision of the Code for Corporate Governance does not explicitly oblige the internal[99] and external audits[100] to review those risks. The Company should have a whistle-blowing procedure, published on its website, for reporting suspicions and breaches of law, company's internal acts or Code of Ethics.[101] The Audit Committee reviews the procedure

[88] ibid. prov. 2.2
[89] ibid. prov. 2.27
[90] ibid. prov. 2.13
[91] ibid. Recommendation to Section 2
[92] ibid. Principle on regulating tasks of Management boards
[93] ibid. prov. 3.2
[94] ibid. prov. 3.9
[95] ibid. prov. 3.11
[96] ibid. prov. 4.1, 4.3, 4.4
[97] ibid. prov. 4.2
[98] ibid. Principle on Section 5
[99] ibid. prov. 5.4 to 5.7
[100] ibid. prov. 5.10 to 5.12
[101] ibid. prov. 5.8

effectiveness and implementation, while the Supervisory Board decide on taking actions on the reports.

Stakeholders, sustainability and social issues

This section addresses the company relations to the stakeholder's interests and companies' broader impact on people and environment. In regards to the former, the companies should establish effective mechanisms to identify stakeholders and gather information on the issues that are of *their material importance*.[102] The companies are required to include information summary of this engagement in their annual report[103] , In regards to the latter, the code requires the companies to:[104]

- adopt environmental and social policies and publish them on company's website
- adopt procedures that enable identification of material factors and assess the impact on the company's activities
- to incorporate environmental and social policies and information in the decision-making process
- information on environmental and social issues should be published in the annual report following legal requirements and good international practices.

Transparency and disclosure

The last section of the CGC is dedicating to transparency and disclosure. The companies are required to disclosure all material matters regarding its financial situation, performance, ownership and corporate governance. The annual report, audited financial statements and other mandatory information related to Company's business operations, financial position and ownership should be published on the Company's website.[105]

Scope of application

The decision on amendments and additions to Listing rules for listing on the MSE defines the criteria on which companies the new CGC would apply. The criteria are related to the companies' market capitalisation, liquidity, free float of companies' shares and the number of shareholders. The companies that fall under the scope of the new CGCs are all listed companies on the Official Market that at the end of the year fulfil at least three of the four conditions:[106]

- market capitalization worth more than 5,000,000 euros;
- have more than 100 shareholders;
- over 5% of the shares in public hands
- the company's shares were traded during at least 30% of the trading days

Based on these criteria, the MSE published a list of companies that should comply with the CGC in October 2021. The list counts 27 listed companies.[107] Listed companies that do not meet these criteria are encouraged to voluntary comply with the CGC provisions. The criteria that determine the scope of application leads to at least three issues. Firstly, three out of the four criteria are related to trading of companies shares, rather than number of employees, company turnover or value, as is the case in the EU directive and the Member States transposition in national legislation. Secondly, the rules may be discriminatory in view of

[102] ibid. prov. 6.1
[103] ibid. prov. 6.1
[104] ibid. prov. 6.3 to 6.7, 7.2
[105] ibid. prov. 7.1
[106] Macedonian Stock Exchange, Decision on amendments on the Listing rules [Одлука за измени за правилата за котација] 2021.
[107] Macedonian Stock Exchange, 'Corporate Governance Code [Кодекс за корпоративно управување]' <https://www.mse.mk/mk/content/3/11/2021/corporate-governance>.

the other listed JSC on the MSE. Less traded companies with shares concentration in small number of shareholders would be exempt from these rules, even though they may have similar size and employees, or even larger market capitalisation and market share. If the regulator considers that their competitors should be compliant, the "unregulated" companies should not have the option to opt out and do not implement the new CGC. The reporting requirement impose administrative and in some cases assurance costs, which would inevitably put companies that fall under the scope of these rules in unfavourable position. Last but not least, the NFRD's single threshold related to number of employees, or even thresholds related to company value or turnover are more predictable that the ones in the Listing rules. It makes it easier for companies to account for company's growth rather than stock market activity and by that plan for compliance with the CGC.

The CGC, as in the NFRD and the proposed CSRD of the EC, has a safeguard clause, i.e. "comply or explain" principle. This approach allows companies to opt out from compliance with each of the CGC's provisions in case the company has limited resources or is undergoing significant changes.[108] Non the less, in such cases, companies should:[109]

- Explain in what way they not comply with a provision and the reasons why, referring to their specific circumstances;
- Describe the actions taken to meet the objective set out in the relevant Code Principle, instead of complying with a given provision
- To specify when it expects to start to comply with a given provision

Even though the "comply or explain" principle allows for flexibility, the application of the new CGC has been highly contested by the Chamber of Commerce of North Macedonia. All companies that fall under the scope of the CGC urged the MSE to postpone the application of amend listing rules and the application of the CGC provisions to 2023, with reporting requirements to apply for 2022.[110] The initiative pointed out to lack of consultations and the difficulties the companies face in meeting the Code rules in view of the worsen economic conditions during the covid-19 pandemic followed by the energy crisis.[111] As an interim solution, the MSE postponed the application of the CGC as requested by the companies, while the disclosure requirements are voluntary for the time being.[112] To date, only three companies have submitted their answers to the MSE. The companies' responses are published on SEI-NET platform.

Minimum requested and recommended disclosure requirements

The disclosure requirements outlined in the CGC on environmental, social and governance issues, are narrower compared to the requirements in the EU. The companies have to disclose only stakeholder engagement summary in the annual report, environmental, social and governance policies on company's website, companies' bodies' compassion and their experience on environmental and social issues in both the annual report and on their websites, and information on environmental and social issues in the annual report. These broad requirements do not provide specific guidance to companies on what they should report related to their operations and impact. The NFRD, for example,

[108] Macedonian Stock Exchange Corporate Governance Code for companies listed on the Macedonian Stock Exchange (n 85). p. 6
[109] ibid. p. 7
[110] Economic Chamber of North Macedonia, 'The Chamber of Commerce - Listen to the voice of business [Комората до берзата – послушајте го гласот на бизнисот]' (13 December 2021) <https://www.mchamber.mk/default.aspx?mid=3&evid=80016&lng=1>.
[111] ibid.
[112] Macedonian Stock Exchange, 'Changes and Amendments to the Listing Rules' (3 January 2022) <https://www.mse.mk/en/news/3/1/2022/changes-and-amendments-to-the-listing-rules>.

explicitly requires companies to inform not only about their policies, but also about the outcome from implementation of those policies, how these issues affect their business model, the due diligence processes, the principal risks, likely adverse impacts and risk management, and non-financial KPIs. The CGC obliges management boards to report on financial and non-financial risks to the supervisory board, but does not clearly refer to risks related to sustainability matters nor requires companies to report on these matters in the annual reports.

The non-binding ESG guidelines survey wide variety of environmental, social and governance reporting topics that companies may report on. These recommendations are organised into four subject areas: Corporate Governance, Business Ethics Standards, Social Issues and Environmental Issues. On disclosure requirements and recommended actions on governance matters, the guidelines refer to the provisions of the CGC which in five of its seven sections deals with this matter. As explained above, the CGC regulates the shareholder rights and engagement mechanism, the role on supervisory and management board and disclosure requirement, including on sustainability matters, conflicts of interest, and risks and control mechanisms, including on sustainability matters. It is only in relation to disclosure of several policies that the CGC and the ESG guidelines overlap with the NFRD and its guidelines. In the section on Business ethics standards, the ESG guidelines recommended disclosure of Code of Ethics, whistle-blower procedure and Anti-corruption policy. In regards the first two, companies are obliged to adopted such acts. On the other hand, there are no provisions in the CGC on an anti-corruption policy. As such, adoption of such policy is a recommendation derived from the Guidelines, rather than an obligation. This is contrary to the NFRD. Even the minimum recommended disclosures fall short compared to the EU guidelines. The companies may share with internal and external stakeholders their anti-corruption policies that extends to suppliers and business partners, and the steps that the company has taken to ensure compliance.[113]

The EU guidelines, on the other hand, specify that companies should disclose the content of the policy as well as its outcomes of its implementation in terms of organisation, decisions, management instruments, and the resources allocated in fighting corruption and bribery, assessment processes, prevention and mitigation, monitoring and effectiveness.[114]

The CGC vaguely regulates the disclosure items for both social and environmental matters. Only one of the seven sections of the CGC are dealing exclusively on environmental and social matters. Reporting on these issues is obligatory, but the code does not specify what information should be reported other than what was elaborated previously. Ambiguous requirements like *"information on environmental and social issues should be included in the annual report"* do not provide clarity for companies on what information must be reported. Such provisions would allow for different interpretations by companies and may lead to problems like inadequacy and reliability issues and non-disclosure of relevant material information. On social matters, the ESG Guidelines propose disclosure of KPIs on social issues like workforce compensation, employee turnover, and minimum recommended requirements

[113] Macedonian Stock Exchange, 'ESG Reporting Guidelines' (n 78). p. 32
[114] European Commission Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information (n 9).

disclosure on labour standards and human rights policy.[115] On issues like diversity, human capital management, health and safety, consumer relations, the Guidelines on non-financial reporting recommend KPIs or refer to relevant frameworks, while the ESG guidelines just mention and do not provide KPIs to be used in these areas. ESG guidelines recommend disclosure items and KPIs in relation to labour standards and human rights are similar to the EU guidelines.

The section on environmental matters covers minimum recommended disclosures and KPIs on GHG emissions, recommended to all companies, and climate change, water consumption and other environmental impacts depending on the company and sector specifics. Both the Guidelines on non-financial reporting and the Supplement on reporting climate-related information provide more detailed disclosure recommendations on reporting environmental risks and opportunities, policies and due diligence process, and KPIs on GHG emissions, energy use, renewables and green finance. For example, product stewardship is mentioned in the ESG guidelines, but, unlike the Guidelines on reporting climate-related information, it does not provide KPIs on green products and services.

Non the less, both the ESG guidelines and the guidelines produced by the EC are voluntary. The companies are not obliged to follow reporting requirements and KPIs from the non-bidding guidelines and may opt not to use them in their reporting. Including disclosure requirements in the CGC provisions would provide necessary guidance for companies on what information should be reporting, but also set the minimum requirements as an obligation for companies.

The EU is doing this with the proposal for the CSRD. The adoption on suitability reporting standards is one of the main steps that would follow after the Directive enters into force. These reporting standards would make all companies to report similar, if not same information. Even though that the CGC and the ESG guidelines follow the sustainability reporting logic of the new EU directive, they do not mirror the disclosure requirements as seen in the draft text of the directive. The regulatory framework in North Macedonia does not require companies to report on environmental matters like climate change mitigation and adaption, and circular economy, social matters like health and safety and equal opportunities, and governance factors like political activity and lobbying development.

Materiality in ESG reporting

The EU is to switch from the concept of non-financial reporting to sustainability reporting when the new directive is adopted and enters into force, but the materiality principle is at the core in both concepts. This principle helps reporting companies to determine what information is relevant to be disclosed, that affects the company operations and value and the companies' impact on people and environment. The transposition of this principle in the national regulatory framework may be pivotal in ensuring same disclosure requirements for companies in North Macedonia as in the EU.

As previously pointed out the CGC of MSE refer to materially principle on three occasions in section 6. The materiality principle, as transposed in the CGC principle and provisions is not fully in line the double materiality approach adopted by the EU. In particular, the section principle

[113] Macedonian Stock Exchange, 'ESG Reporting Guidelines' (n 78). p. 32
[114] European Commission Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information (n 9).
[115] Macedonian Stock Exchange, 'ESG Reporting Guidelines' (n 78). p. 35

states that the companies should engage with stakeholders to understand environmental and social issues that are both i*n the interests of the Company and the stakeholders*. Later, however, it puts focus on the in-side out perspective. It requires boards to encourage corporate culture with responsible attitude towards environmental and social issues and business model and risk management systems that *take account of the potential environmental and social impact of its activities*. The aspect that governing and supervisory bodies should consider and report on how sustainability factors and stakeholders' action *effect the companies*' value is not explicitly requested to be pursuit in the principle of this section. FALI FUSNOTA 116

The out-side in perspective (the financial materiality) of the double materiality principle is reflected only in the provisions. The rules require the companies to have policies and procedures that enable them *to identify material factors and assess the impact on the company's activities*. These policies and procedures should be available on the companies' websites. By addressing the two materiality perspectives in the section principle and the section provisions, the CGC imposes different requirements for companies that do not comply with the provisions of the code and the ones that do. The "comply or explain" approach allows the former to comply with the principle only, and not the provisions for an undetermined period of time and by that to not report information on how environmental social and governance issues affect the company value. The latter would be obliged to take into consideration both perspectives as they comply with both the Code Principle and its provisions.

In the transparency section, the code specifies that companies should disclose information on environmental and social issues *based on the principle of transparency and in accordance with relevant legal requirements and good international practices* in their annual report. As defined, these provisions do not oblige companies to use materiality principle in determine what information should be they disclose. The ESG guidelines provide explanation on a stakeholder analysis approach on determining what information may be of material importance, but these guidelines are not obligatory. On the other hand, the Non-Financial Information Directive requires disclosure, to the extent necessary, for understanding *of the group's development, performance, position* as well as *impact of its activity*. As such, the Directive explicitly obligates companies to take double materiality approach in their reporting.

Reporting format, standards and frameworks

The reporting formats for companies in North Macedonia differ from the ones in the EU. The CGC requires disclosure in the annual report, while ESG guidelines suggest companies may also use a stand-alone sustainability report or an integrated report with financial and sustainability information integrated in one document. The CGC requires only the summary of stakeholder engagement, board members remuneration, actions on meeting diversity targets, and information on dealing with conflicts of interest companies to be included in the annual report. In line with the NFRD, the ESG guidelines suggest companies to use internationally recognized reporting standards and frameworks like the CRI, the International Integrated Reporting Council, the Sustainability Accounting Standards Board, the Task Force on Climate-related Financial Disclosures and the Carbon Disclosure Project, or reporting related initiatives like the Climate Disclosure Standards Board, UN Global Compact and the Sustainable Development Goals. The ESG Reporting Guidelines requires companies should specify on which standard and framework they have relied upon in their reporting.

Allowing for different reporting formats and use of different standards and framework for reporting on environmental, social and governance matters may lead to a comparability problem, or omission of relevant information for investors and other information users. These problems have already been noted for companies in the EU even though both the NFRD and the proposed CSRD require the disclose to be done in a uniform reporting format - the management statement. Furthermore, the MSE would inevitably have to change its reporting requirements in the future to mirror the obligatory sustainability reporting standards derived from the CSRD or eventually adopted them as its own.

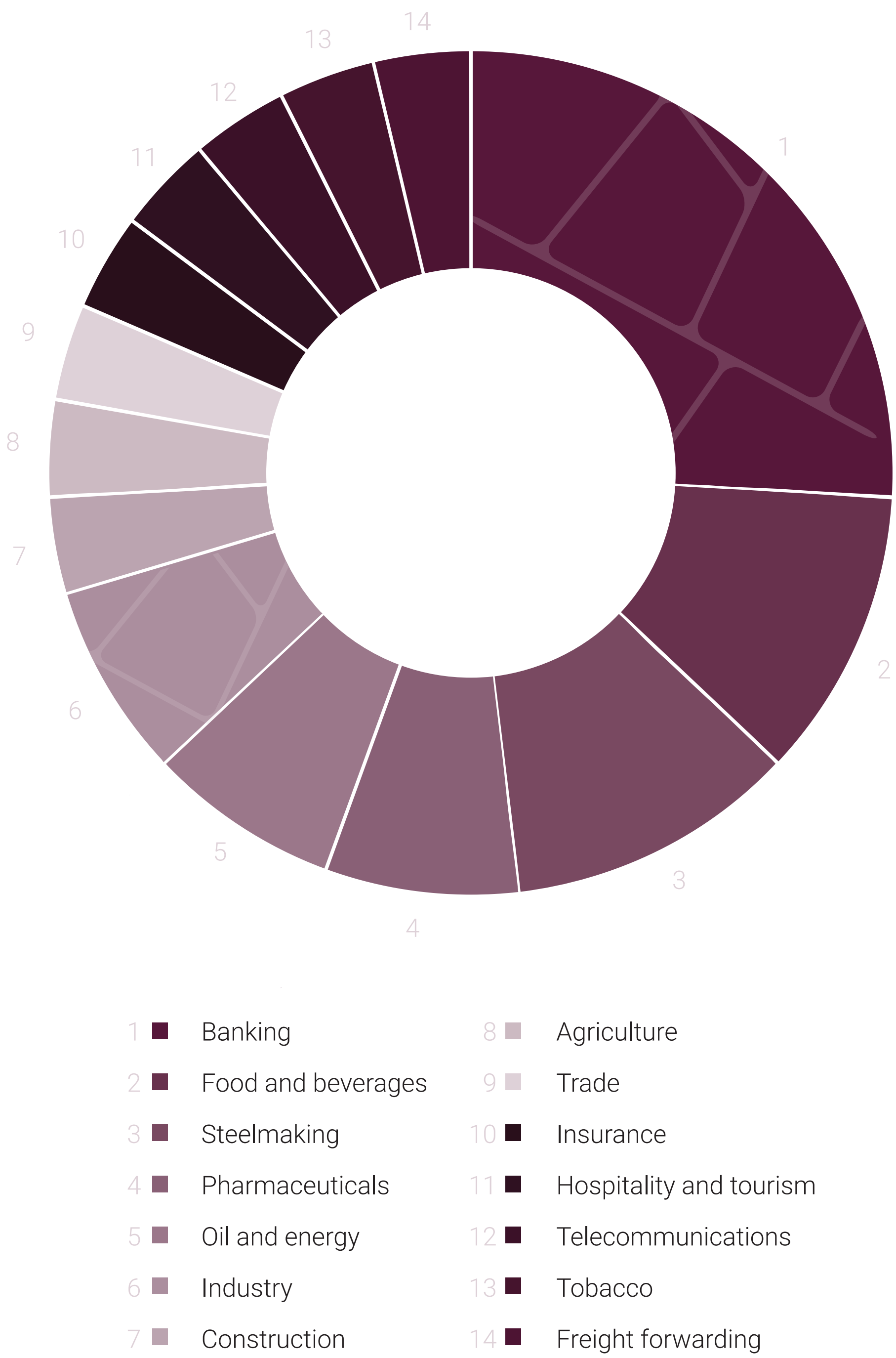
	Corporate governance code and ESG guidelines	Non-Financial Reporting Directive and Guidelines	Corporate Sustainability Reporting Directive
Scope	Listed companies that fulfil three of the conditions • market capitalisation of more than 5,000,000 euros; • more than 100 shareholders; • over 5% of the shares in public hands • Its shares traded during at least 30% of the trading days	• Large public-interest entities with 500 employees	• All large companies and listed companies • Listed small and medium enterprises (phasing-in) • Exemption on subsidiaries • Listed micro-companies excluded
Areas covered[117]	• Environmental issues • Social Issues • Corporate governance • Business ethics standards	• Environmental matters • Social and employee matters • Respect for human rights • Anti-corruption and bribery matters • Diversity on governing boards	• Environmental factors • Social factors • Governance factors
Information required	• Stakeholder engagement summary • Environmental, social and governance policies publish on company's website • Companies bodies' compassion and their experience on environmental and social • Information on environmental and social issues.	• Business model • Description of the policies, including due diligence processes implemented • Outcome of those policies; • Principal risks, likely adverse impacts, and risk management risks • relevant non-financial KPIs	• Business model and strategy, including opportunities and resilience to sustainability risks • Companies' policies on sustainability matters • Description and progress in me achieving set targets • Companies' bodies role on sustainability matters • Sustainability due diligence process • Adverse impacts related to companies' value chain and actions to prevent, mitigate or remediate • Indicators in relation to these disclosures • intangibles

[117] For more detailed overview on the areas covered, recommended disclosure requirements and KPIs see annex 3

Materiality	• Inside-out perspective in Principle • Outside-in perspective in Code provisions	• Environmental and Social materiality (inside-out perspective) • Financial materiality (out-side in)	• Clarified Impact materiality (inside-out perspective) and Financial materiality • Requirement to use quantities reported in the annual financial statements
No disclosure option	• Safeguard clause (Listing rules) • Comply or explain	• Safeguard clause • Report or explain	• Safeguard clause • Report or explain only for diversity policy
Assurance of sustainability information	• Not explicit, part of regular internal and external audit	• Member States may require verification by an independent assurance services provider	• Mandatory audit on annual sustainability reporting
Reporting format	• Annual report • Company website	• Management report	• Management report
Standards and framework	• International standards and frameworks	• European Union based frameworks • national or international frameworks • International standards and frameworks	• Sustainability reporting standards with sector-agnostic and sector-specific disclosure requirements • Sustainability reporting standards for small and medium sized enterprises
Machine readable formats	• Not covered	• Not covered	• Required

3.2. Reporting practices among listed companies in North Macedonia

The reporting practices on business ethics standards as part of the governance issues, the environmental and social issues are presented in this part. The study population comprises of JSC listed on the MSE which should have complied with the new CGC as of 2022. The list was published on the 3rd of November 2021. The company population comprises of 27 JSC, of which seven companies are Banks, three companies from the food and beverages industry, 3 in the steel production, 2 in Pharmaceuticals, 2 in 0il and gas, and 1 company in agriculture, trade, insurance, hospitality and tourism, telecommunications, tobacco, and freight forwarding and two work in several industries. The list of the companies is available in Annex 2.



3.2.1. Business ethics standards

The ESG guidelines refer to Business ethics standards as organisational principles for responsible management framework and ethical business conduct. This framework should contribute to value creation in the long term. The list on Business ethics standards minimum requirements covers disclosure items in relation to Code of Ethics, Anti-corruption policy and whistle-blower procedure.

Code of Ethics

Code of Ethics, or Code of Conduct, is formal document outlining company ethical business conduct standards. This document clarifies the company's values and principles, and ethical behaviour guidelines for its employees and third parties.[118]

The CGC requires companies to communicate the Code of Ethics internally and externally. The ESG Guidelines suggest that companies should disclose:[119]

- Whether the company has adopted a Code of Ethics
- The steps that the company has taken to ensure compliance.

Out of 27 companies, just nine companies have published a Code of Ethics. Of those nine companies, eight have published a downloadable document on their website, while one company has a "Code of conduct" section on its website. Three companies have a statement in an annual or a management report that they have adopted Code of Ethics, but the document is not publicly available. The Codes of corporate governance of other three companies refer to a Code of Ethics as their ethics standard, but the document is not available for review. One company informed in the 2020 annual report that its board formed a working group to prepare a Code of ethics.

The most often steps the companies take to ensure compliance with their Code of Ethics are defining the roles and responsibilities of the companies' directors, sectors and employees. Companies have reporting mechanisms in place and encourage employees to report unethical behaviour. Other actions include written statements on intention to comply and statements on compliance in the past, usually on annual basis, trainings to employees on the rules and procedures of the companies' Code of Ethics, and sanction for non-compliance. Two companies report quantitative data on compliance in terms of number of breaches of the company's Code of Ethics. A third company informs on the number of employees in training and the hours of training it dedicated to inform employees on their Code of Ethics.

Anti-corruption policy

The Anti-corruption policy is a formal document which can be a stand-alone document or a part of a wider set of company standards such as the Code of Ethics. The policy should outline the company's position on bribery and corruption. The ESG guidelines suggest companies to inform about:[120]

- Whether the company has an anti-corruption policy that extends to suppliers and business partners. The policy should be communicated internally and externally.
- The steps that the company has taken to ensure compliance.

Nine companies of the observed 27 have an anti-corruption policy that is incorporated in their Code of Ethics. Eight of these policies are in

[118] Macedonian Stock Exchange, 'ESG Reporting Guidelines' (n 78). p. 32
[119] ibid. p. 32
[120] ibid. p. 32

a form of a downloadable document published on their website and one is available as a sub-section on the company website. Non the less, only two of the nine companies' anti-corruption policy extends to suppliers and business partners. In all other cases the rules apply only to employees and the company's management bodies members. The Codes of Ethics of two companies refer to a stand-alone anti-corruption policy that in more detail elaborates the anti-corruption rules, procedures and responsibilities, but the documents are not publicly available. Two companies, even though they do not have an anticorruption policy, have a statement that they comply with the principles of the UN global compact, one of which is fight against all forms of corruption. Three companies inform that fight against corruption is regulated with the Code of Ethics, either in their annual report or in the CGCs, but their Code of Ethics are not available for review.

Most common actions companies take to ensure compliance are internal reporting procedures, established communication lines for employees to get informed or consult compliance or legal departments, trainings and handbooks on anti-corruption. Few companies require its managers and employees to submit written statements that they have been informed about the company's anti-corruption rules. One case requires its suppliers and business partners to submit written statement that they have not been engaged in corruptive behaviour in the previous year. In some cases, the Code of Ethics provides examples of not acceptable behaviour and activities, and steps the management and employees should take when facing suspicious interactions within the company or in interaction with third parties. One company has informed in the annual report that company representatives participate in workshops on responsible behaviour organised by a CSO. The two companies that extend the anti-corruption provisions to third parties have incorporated an anti-corruption clause in suppliers' contracts or have general terms for partners that have anti-corruption provisions, including sanctions in case of breach of contract. Only two companies report the number of corruption cases in their annual reports. One company informs it received an award on zero tolerance, organised by a CSO.

Whistle-blower procedure

A whistle-blower procedure or a grievance mechanism is an internally operated (e.g., a dedicated email address) or managed by an independent third-party system for reporting of suspected or actual breaches of law, violations of rules or other misconduct. The companies should inform that:[121]

- The company has a whistle-blower procedure in place.
- Methods for reporting a violation or concern (e.g., dedicated email, reporting hotline, etc.) and the process for handling of the reports.

The CGC of the MSE requires the details of the procedure to be published on the company's website. There are just nine companies that have published information on the procedure in different documents and formats. The companies include information on the whistle blowing procedure as part of a rulebook on protected internal reporting (in two cases), in the CGC (two cases), or both (in one case), in the Code of Ethics (one case), as part of the risk management strategy (one case), or on a dedicate whistle blower website (in two cases). Statement that the company has a procedure in place was found for two companies, in an annual report and report from the board of

[121] ibid. p. 32

directors, but the procedures were not available for review. Three companies' CGCs state that such policy should be adopted, but no other source of information confirms that such policy was adopted.

The most common methods for reporting are company emails, in person, in written or oral form, submitted to responsible department, or by post. Companies have dedicated emails for this purpose or have made public the contact details to company's compliance officer, parent company's compliance managers or compliance department. Two companies have a reporting form available on their website. Other whistle blowing methods used by companies are dedicated whistle-blower website, internal portal for protected reporting, and contact centres.

Data privacy and security

Even though data privacy and security are not among the minimum recommended requirements, it is the second most covered area among the observed companies with 23 out of 27 companies disclosing information. However, just 16 companies have their privacy policy and 13 companies have their cookies policy available on the company website. Only nine companies have disclosed personal information and contact details from their data privacy officers on their websites. Three companies inform about video surveillance at their premises on their website. It comes to surprise that companies do not disclose information on data privacy and security even though this is required by the Data protection Law. Other forms that companies communicate their commitment to data protection are statement in the CGC and Code of ethics, information obtained ISO/ IEC 27001 certification — Information security management and ISO 27001:2013 standard for data safety. Companies inform in their annual report on improvements of IT security systems, implementation of new data processing protocols.

3.2.1 Social issues

Social disclosures are relating to companies' interaction with the rights, the well-being and the interests of people and communities. The ESG Reporting Guidelines provide minimum disclosure requirements on work compensation, employee turnover, labour standards and human rights policy. In regards to the first two areas, the guidelines suggest specific KPIs, while on the other two it give recommendation on information that companies should consider disclosing.

Workforce compensation

Workforce compensation is one of the areas where majority of the companies report some data. The CGC obliges companies to publish details of the remuneration of Supervisory and Management Board members. The ESG Reporting Guidelines recommend companies to consider disclosing workforce composition by gender, employment type (full- or part-time), by age group and geography.[122]

Out of the 27 companies, 18 companies publish remuneration details on Supervisory and Management Boards and other information on workforce composition. However, the reported unit measurements significantly differ between these companies. Some companies disclose

[122] ibid. p. 33

only the total remuneration of the board members, while other disclose information per board member. One company even cites confidentiality as a reason for non-disclosure. The salaries amount, bonuses and other income is disclosed by few companies, mostly banks, while other companies disclose only the total amounts of remuneration. Few companies, again mostly banks, disclose audit board members and other persons with special rights and obligations remuneration. In few cases, the remuneration and rewards system and criteria are disclosed. On the workforce compensation, all companies report the total remuneration cost of the company. Some companies report by type of remuneration, fixed and variable part, and number of beneficiaries, by level of education and by sectors of employment. There is no case where company reports workforce composition by employment type, age group and geography as recommended in the ESG Reporting Guidelines, with one exception. The only exception where the company discloses the remuneration of each member of the Supervisory and Management Board as well as their personal information (gender, age, place of residence).

Employee turnover

Companies are recommended to disclose the turnover rate calculated as proportion of employees that have voluntary left the company or due to contract termination of by employer. and the average number of employees in the reporting year.[123]

Even though this is the most disclosed item, with 20 out of 27 companies reporting some data, the disclosed information differs in terms of format and dept of reported data. Companies report the number of employees for the reporting and previous year in absolute numbers, turnover rate or both. In some cases, the number of new employments, changes in positions and promotions, number of terminated contracts, redundancies and/or retirements are disclosed. Few companies present turnover rate by employees' gender, age, education, nationality (domestic and foreign), years of experience, per company sector and/or subsidiaries. In some cases, data is reported for two, three and even ten years.

Labour standards

Labour standards are defined as set of basic principles and norms that companies should respect at the workplace. The companies are guided to report: [124]

- The company' measures to support workers' right to exercise freedom of association and collective bargaining in its own operations and in the supply chain;
- If the company assess exposure to human rights risks, including child labour and forced labour in its own operations and in the supply chain;
- The operations and/or suppliers considered to have high exposure to human rights incidents and what actions have been taken to mitigate them

Very limited information is disclosed by companies to inform interested stakeholders about their risk exposures and proactive support to workers and human rights. Only four companies provide information on the first recommended disclosure item. Two state

[123] ibid. p. 33
[124] ibid. p. 33

they support collective bargaining, workers representation and social dialogue, or good relations with workers unions in their Code of Ethics. Only two companies report they have workers unions, of which one informs about a collective agreement. Ten companies have a statement on respecting human rights. One company has statement on following the Declaration of basic rights at work place or the UN global compact principle on human rights, forced and child labour, while other has a statement on zero tolerance on discrimination and abuse of minors. No information was be found on human rights risks exposure in companies' operation and their value chains.

Human rights policy

The human rights policy is a formal stand-alone document or policy integrated in company standards like the Code of Ethics or Supplier Code of Conduct that outlines the company's position on human rights. The companies are advised to refer to United Nations Global Compact when developing their human rights policy. The companies should inform about:[125]

- Whether the company has a human rights policy that extends to suppliers and business partners.

Out of 27 companies, statements on respect for human rights was identified for ten companies. Seven of those companies have statements on respect to human rights are integrated in a company standard, either the Code of Ethics or the Companies' CGC. Two companies have a statement on human rights on their website, while only one company has a stand-alone document on human rights. In only three of ten cases where companies have a statement on respect to human rights, the companies extend this requirement to their suppliers and business partners. In the other seven cases, compliance with this policy is sole responsibility of companies' management and employees. One company's satement on respect of human rights is integrated in the Code of Ethics of its parent company. In few cases, the commitment on respect of human rights is one of the company values. Internationally recognised human rights standards that companies refer to are Universal Declaration of Human Rights of the United Nations, the UN global compact principles, ILO Conventions, the OECD Corporate Governance Principles as well as national laws, in particular Anti-discrimination and Labour Law, and Law on protection against harassment in the workplace. One company has extended human rights protection and non-discrimination in its investment policy.

Other social aspects

Working conditions

The ESG guidelines point out that working conditions are one of the social factors that companies should consider reporting.[126] Even though it is not recommended as minimum disclosure requirement, the simplified materiality map in Annex D suggest that this topic is relevant across all sectors. This area covers a broad range of topics and issues, from working time (hours of work, rest periods, and work schedules) to remuneration, as well as the physical conditions and mental demands that exist in the workplace. [127]

[125] ibid. p. 34
[126] ibid. p. 9
[127] International Labour Organisation, 'Working Conditions' <https://www.ilo.org/global/topics/working-conditions/lang--en/index.htm>.

In total ten companies provide information on working conditions. The source of this information are the companies' job postings. Given that there were companies that did not had open calls on their website at the time of observation, so the number may be bigger. Besides the requirements and responsibilities that come with the job position, company's information on working days and hours, work in shifts (if applicable), salary and bonuses, if food and travel is provided by the company, collective private insurance in the job postings on company websites. Some of the reviewed job postings use vague terminology like "work in a dynamic environment that stimulates growth with a competitive salary" which does not provide clear view on the working conditions offered by the companies.

In several cases, the Code of Ethics or the CGC have provisions on the workers rights to reasonable remuneration and a minimum wage, and that companies act to create safe and healthy work environment and professional development.

Some companies inform on the mental health and emotional wellbeing support programmes, access to councillors, free healthcare checks for employees exposed to health risks, free food and transport or application of new technical-technological methods in order to improve working conditions in their annual reports.

Health and safety policy

Health and safety are another factor that affects and is in interest of employees, people and communities the companies interact with. The ESG guidelines point out that companies should adopt and disclose a Health and Safety Policy.[128]

Information that such policy is adopted was found for 11 companies, while only for eight the policy was publicly available. The policies inform on the actions companies take to protect health and safety, including key information on hazards and mitigation procedures, explosion and fire prevention protocols, investment projects, health and safety trainings and handbooks, on the policy actions could not be found. Three companies have their ISO 45001:2018 standards for an occupational health and safety (OH&S) management system certificates on their website, and one company has an OHSAS 18001:2007 – Occupational Health & Safety Advisory System certificate on website. Companies report on having monthly controls, firefighter services and steps to protect employees and costumer's health during the Covid 19 pandemic in their annual reports. Only one company provides data on the number of injuries, avoided accidents, number hours in training of health and safety per employee and business partners, total amounts spent on health and safety for employees, indexes for lost working hours and days because of injuries.

Employee training

Employees training is another social factor named in the ESG Guidelines.[129] Employees training and development have impact on the companies present and future development, and also put a positive mark on the local communities. Companies' commitment to employees continuous learning, development is a priority for ten of the observed companies. Statement on employees professional development is noted in the Code of Ethics,

[128] Macedonian Stock Exchange, 'ESG Reporting Guidelines' (n 78). p. 9
[129] ibid. p. 9

among companies values or in the CGC. The KPIs the companies use to present the results in this area differs between companies. Most companies report number of training held, number of employees in training or number of training hours. Some companies provide more detailed data, by braking data by training provider (internal and external), domestic and trainings abroad, and by topic (by department or by relevant regulation). Different metrics used by companies makes presented information hard to compare. Two company informs they have an e-learning platform available to their employees.

Community relations

Even though is not a minimum recommended requirement, 22 companies report engagement with community which makes it the third most reported area. The reported projects, activities and actions the companies engage in are presented in areas of activities.

It should not come as a surprise that the most companies, 15 out of 22, have engaged in activities related to healthcare. All but one of the reported actions are in support to the fight against the covid-19 pandemic. Companies have provided financial assistance or donated in-kind medical, protective and testing equipment to the Ministry of Health, clinics and hospitals, local government and schools. One company has made its accommodation capacities available to the Ministry of Health free of charge. The one company supported doctor's participation at international seminar and congresses. Half of the companies, 11 out of 22, have supported cultural events the education system and local communities. The support for culture includes sponsorships or patronages to festivals and other cultural events, theatres. The education system is supported with scholarships for high school and university students, donations of computer equipment, renovations of school buildings or gave free lectures to students and pupils. Companies support for local communities come in form financial and in-kind donations for vulnerable communities', and donations for sports and recreational infrastructure. Eight companies provide traineeships programs for high school and university students and have volunteerism programmes for their employees. Few companies implement environment projects like donations of solar panels waste management system or environmental awards (five companies) or support local business with trainings, free advertising space, or donate to chambers of commerce (four companies). Companies also sponsor sporting events and clubs, or have their own clubs (nine companies). Only one company reported political activity – lobbying for financial support for the industry during covid-19 pandemic.

Even though significant number of the companies engage with communities, only few have communicated their strategic approach in this regard. Few companies have community relations as one of their priority listed in the Code of Ethics, as part of their vision on their company website, or as annual objective. In managing and implementing community support, donations in particular, companies collaborate closely with local CSOs. Two companies have their own foundation that manage their activities.

The quantitative data that companies report on their support to local communities is in form of total budget for donations and sponsorship, financial value for each donation and sponsorship and the number of direct and indirect beneficiaries. It should be noted however, that this is the case for only few companies. Most do not report data that elaborates the short- and long-term impact of company support to local communities.

3.2.3. Environmental issues

Disclosures on environmental matters are related to issues that arise from or impact the natural environment. This section covers minimum recommended disclosures and KPIs on GHG emissions, climate change, water consumption and other environmental impacts. Given that exposure to these issues may differ depending on the sector and company specifics, only the GHG emissions are recommended for all companies, while the other KPIs are recommended if companies consider them applicable.

GHG emissions

On GHG emissions the companies are recommended to use internationally recognised standards such as the GHG Protocol or the ISO 14064-1:2018 standard. The companies should disclose:[130]

- Methods and assumptions used for calculation of the emissions;
- GHG emissions Scope 1 (direct emissions)[131], Scope 2 (indirect emissions)[132] and Scope 3 (if relevant, other indirect emissions)[133] for the last three years to allow for performance assessment over time;
- Explanation of significant changes in performance (whether negative or positive).

Only two companies disclose the methods used for calculating, while three report data on their emissions. The reported methods are ISO standard 14181 and the Global Cement and Concrete Association Sustainability guidelines on measuring and reporting C02 emission. Only one of these companies report Dust, Sox, N0x, and co2 emissions, while the other two report only annual co2 emissions. One company reports the financial value of savings from its investments, energy saved and co2 reduction for reporting and two previous years.

Companies communicate other information that may be of interest of their stakeholders, but is not covered with the ESG guidelines' minimum recommended disclosure items. For example, two companies inform it set co2 emissions reduction limits even though they do not report performance change, while other two announced in 2020 that they will go carbon neutral by 2030 and 2035. Other disclosed information is related to companies' investments like solar collectors, energy efficient lighting, energy efficient building, emissions reduction in production systems, or cleaning pollution sources. In few cases, companies disclose the financial costs of these projects, the number of realised projects and expected financial savings.

Energy consumption

The energy consumption is the total amount of energy consumed, comprised from purchased and self-generated energy sources within the company. Companies should report on: [134]

- Methods and assumptions used for calculation of the energy consumption.
- Total amount of energy consumed (in MWh).
- Percentage (%) of energy consumed by type of energy (renewable and non-renewable energy sources).

[130] ibid. p. 34
[131] direct GHG emissions occur from owned or controlled sources, including: stationery combustion (fuels and heating sources), mobile combustion (vehicles), fugitive emissions (resulting from refrigeration or air conditioning leakages), and process emissions from industrial processes.
[132] indirect GHG emissions are the emission from purchased or acquired electricity, heat or steam
[133] Other indirect GHG emission may occur in the both "upstream" and "downstream" value chain of reporting company
[134] Macedonian Stock Exchange, 'ESG Reporting Guidelines' (n 78). p. 35

The same three companies that disclose co^2 emissions report on information on energy consumption. Only one informs that it uses the Global Cement and Concrete Association Sustainability guidelines as a method for their calculations. Two company discloses the total energy consumed by source - thermal and electricity in one case, oil and natural gas in the other. Another company reports energy consumption in absolute numbers, percentage decrease for the past four years and the co2 emissions as a result of lowered energy consumption. One company reports energy consumption per production sector, while two report per unit of product. A forth company informs on the use of renewables as percentage of total energy consumption particularly for heating and cooling, but the total amounts of energy consumed is not reported. The monetary value of energy consumption is reported in the financial reports, but in only two cases this information is used to present company energy use reductions in the annual report. As different unit measurements have been used by these companies, the data from the financial reports is not comparable. Some report the total cost for energy and fuel, other in materials, energy and spare parts category.

One of the companies in the oil and energy sector discloses income from production of renewable energy in its financial reports. Companies also inform they have set a goal to lower energy usage, or to investments in renewable energy.

Water consumption

Companies that find it relevant, should disclose information on water consumption:[135]

- Total amount of water consumed (in m3);
- companies with water-intensive operations should inform on activities to reduce water use, increase water circularity (through water reuse and recycling) and preserve water resources.

Only two companies report data on water consumption. One company informs on the water consumed per unit of product, the total amounts of water used by production unit and by discharge destination, and the total amount of recycled water for the past three years. The other company informs on the water consumed annually, and the savings from planned and implemented investment projects. As in the case of energy, the companies report the cost on water in their financial reports, but none of the observed companies has used this data to report increase or decrease of water used.

Six companies report their activities in regards to water use reduction (installation of new cooling system), water circularity (oil separation system and recycling plants) or water preservation (water collection system and water treatment plants). Other three companies inform that water reduction is a company priority for 2021.

[135] ibid. p. 36

Other environmental impact

Raw materials use[136]

One of the least reported areas is the use of raw materials. Four companies have statement on reduction of raw materials use as their priority in the Code of ethics, environmental policy a statement on their website. Only one of these companies report quantitative data on use of natural resources, materials for production, inputs for aggregates for past three years in their annual report for reporting and past two years. One company informs that stimulates employees to use less paper and travel less with engine run vehicles.

Pollution and waste management[137]

On pollution and waste management, companies report information about their commitment to waste management, activities they take in this regard with no quantitative data on their results. In their Code of Ethics or websites, companies inform they recycle waste, and in one case commitment to circular economy approach. In three cases companies disclose detailed information on the recycling process, including collecting selection and transport. Two companies inform they use waste for production of bio gas, but both do not report amounts of waste used or income generated by this business activity. Even though four of the observed companies are owners of a recycling company, only one has stated this information in its annual report. A company informs it implements waste management project with a university institute.

Biodiversity[138]

Two companies inform about their activities in protection of nature's biodiversity. One company inform it has rehabilitation plans and biodiversity risk assessment tools to identify potential negative impact. It reports data on risks and forestation activities. The other company informs that their technologies are in line with biodiversity protection country plans.

Product stewardship[139]

Product stewardship is a process for developing socially and environmentally responsible products. There are several examples of companies contributing to consumers safety and lower environmental footprint trough product development. Companies introduce new products or take action that contribute to consumers safety (new product lines, providing information on product specification and warnings) or minimise product's environmental impact to environmental (new product or service lines, new production processes). One company inform it has an ISO 22000 — Food safety management certificate.

[136] ibid. p. 9
[137] ibid. p. 9
[138] ibid. p. 9
[139] ibid. p. 9

Section 4: Case studies: Best performers among the listed Joint Stock Companies in North Macedonia

In this section the approaches to ESG reporting and disclosure by the companies identified as best performer are presented. The three companies with highest disclosure points score are Cementarnica USJE AD Skopje, Alkaloid AD Skopje and Makedonski Telekom AD Skopje.[140] The three case studies investigate what policies and policy actions are presented by the selected companies, and the results and outcomes the companies achieved in regards to social, environmental and governance matters. Each case study elaborates the information disclosed on the companies' website as well as in their annual reports.

4.1. Case study I: Cementarnica USJE AD Skopje

Cementarnica USJE AD was founded with a decision by the Government of the People's Republic of Macedonia in 1955 as Cement Plant USJE, a producer of cement and other building material. In 1998 the company became part of the TITAN Group. Today, the company manages 3 quarries: the Usje marl quarry, the Govrlevo limestone quarry and a sand quarry. In addition to the production of cement, USJE also has a ready-mix concrete and aggregate unit which produces various types of concrete. It supplies its products to the domestic market, as well as the markets in the region (Kosovo, Albania and Bulgaria). The company employees more than 250 people.[141]

The company focus is to contribute to environmental protection, while developing better products and raising industry standards that would contribute to sustainable development. A CSR Committee, chaired by the Chief Executive Director with members of the management team and the health and safety, environmental and human resources managers, is responsible for implementation of the company's CSR strategy. The committee meets four to six times a year, and in some cases monthly to review and evaluate action plans and achievements, as well as to initiate further improvements.[142]

The company's sustainability commitments are divided in areas four areas - environment, health and safety, commitment to its employees and the local communities The company website has separate sections for each area where the policies and actions, and in some cases the results are presented. In the area of environment, the company provides information on its activities in relation to emissions, noise management, waste management, quarry rehabilitation, water management, alternative fuels, and raw materials, climate change, and circular economy. For each area the company has a statement on its commitment to address problems while recognising that their operations have impact, as well as the actions the company takes to address these problems.[144] However, the company targets for 2030 targets are related to only some of these areas like water reduction, and energy efficacy targets in line with the United Nations Sustainable Development Goals.[145] In the alternative fuels and raw materials section, the company informs on its goal to replace up to 15% of conventional fuels in the first phase. [146]

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[140] The ESG disclosure and reporting practices of Komercijalna banka AD Skopje and Makstil AD Skopje deserve an honourable mention.
[141] Cementarnica USJE, 'About Us' <https://www.usje.mk/en/about-us/>.
[142] Cementarnica USJE, 'Sustainability Initiatives'.
[143] Cementarnica USJE, 'Sustainability' <https://www.usje.mk/en/sustainability/>.
[144] Cementarnica USJE, 'Enviroment' <https://www.usje.mk/en/sustainability/environment/>.
[145] ibid.
[146] Cementarnica USJE, 'Alternative Fuels and Raw Materials' <https://www.usje.mk/en/sustainability/environment/alternative-fuels-and-raw-materials/>.

On the results of the company's activities, the USJE website provides information on air pollution in weekly and monthly reports, on waste management the company informs that clinker and cement production process does not generate waste or waste by-products. The website informs that the plant and the quarries does not exceed the noise limit prescribed with relevant regulations. On health and safety, the website informs on systematic approach to health and safety and contractor health and safety evaluation system. The company encourage collaborators to set higher standards and to extend USJE's good practices in their own operations. The role of the central committee on health and safety is explained and the activities the company takes to promote and ensure health and safety work environment. The activities to promote and ensure professional development are presented in the "our people" section. The community engagement activities include open days and visits to its production facilities, traineeships for university students and scholarships for postgraduate students, donations for kindergarten and school renovation and employees eco actions for forestation and waste gathering and participation at earth hour and mobility week.[147] The company regularly publishes press releases on its suitability actions and results.[148]

The company is publishing an annual sustainability report. In this report, USJE discloses information on its sustainability approach, activities and results that are not reported on the company website. For the first time in 2020, the company has presented its materiality assessment process in this report. [149] USJE is the only company among the ones observed that discloses information on this process. The company informs on who are its main stakeholders, activities it takes to consult them, the materiality matrix and the links of the issues related to United Nations Sustainable Development Goals and the TITAN Group's focus areas. In the annual report the company presents its environmental results, its contribution to the society and corporate governance issues. [150] In ESG performance statements, the sustainability report provides information the reporting methodology, definitions and notes, standards and guidelines on the reported data are presented. The Environmental Performance Index and Index for contribution to society, including all KPIs from the report are linked to the United Nations Sustainable Development Goals and the UN Global Compact. [151] The External assurance report on sustainability information, the external audit report and the financial reports are available in the report annex.[152]

The company's policies are presented in the report annex, which include human rights policy, anti-corruption and anti-bribery polices, human resources management policy, Corporate responsibility policy, Code of Conduct, environmental and climate change mitigation policy, health and safety policy and conflict of interest policy. The company informs it has disseminated, implemented and assessed all policies. [153] It should be noted that none of these policies are publicly available, with the exception of the Code of Conduct.

The company effort to sustainability development have been recognised by national and international institutions. Cementara USJE obtained an A-Integrated Pollution Prevention and Control Permit A-IPPC in 2020. [154] In 2019 the company won Sustainable Development Goals Leadership Award and an award for promoting human rights in business. [155]

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[147] Cementarnica USJE, 'Sustainability Initiatives' (n 141).
[148] Cementarnica USJE, 'Media Library' <https://www.usje.mk/en/newsroom/media-library/>.
[149] Cementarnica USJE, 'Annual Sustainability Report 2020 Cementranica USJE AD Skopje' <https://www.usje.mk/media/niaahkgh/titan-usje-annual-2020-en-v19-web.pdf>. p. 23-24
[150] ibid. p. 25-27
[151] ibid. p. 54-70
[152] ibid. p. 72-78
[153] ibid. p. 70
[154] Cementarnica USJE, 'Our History' <https://www.usje.mk/en/about-us/our-history/>.
[155] Cementarnica USJE, 'Annual Sustainability Report 2020 Cementranica USJE AD Skopje' (n 148). p. 21

4.2. Case study II: Alkaloid AD Skopje

Alkaloid AD Skopje is a joint stock company founded in 1936, which operates in the field of manufacturing pharmaceuticals, chemicals and cosmetics and processing botanicals. The company has two subsidiaries in the country as well as 18 subsidiaries and 2 representative offices in Serbia, Montenegro, Kosovo, Albania, Bosnia and Herzegovina, Croatia, Slovenia, Switzerland, Bulgaria, Turkey, Ukraine, the Russian Federation, USA and UK. The company has 2.015 employees in the country and 604 employees in subsidiaries and representative offices abroad. The company shares are owned by over 5,000 shareholders physical and legal entities.[156]

The Alkaloid applies an Integrated Management System that extends to all programmes and subsidiaries. The Integrated Management System incorporates several quality, safety and environment management systems into one. The Policy for implementation of this system outlines the basic principles and it is available on the company website. [157] The policy is closely related to the company vision and mission, the Integrated Management System Manual, the Environmental Master Plan, procedures, standard operating procedures (SOPs), instructions and other documents. [158] None of these documents however are available on the company website.

Alkaloid's approach on dealing with quality assurance and environmental protection are elaborated in specific sub-sections on the company website. In regards to the quality assurance, the website outlines the company approach, the activities it takes and statement on compliance relevant laws, regulations and standards. However, there is no information on the company perforce in this regard. Information availability in regards to company's environmental footprint is slightly different. Alkaloid informs about relevant ISO standards are incorporate in the Environmental Management System, and the actions it takes in regards to environmental protection and information on the results achieved. [159] Data on water and energy consumption, and co2 emissions are presented on the company website for six years period, while the results of waste reduction for the two years period.[160] The Alkaloid website provides a list of completed energy efficacy projects with short description, start and finish dates, cost and monetary savings and other benefits of each project.[161]

The interaction with stakeholders is elaborate in the social responsibility policy section on the company website.[162] However, a social responsibility policy as a standalone document is not available for review, nor it is referred to as an integral part of the Integrated Management System. In this section, the Alkaloid informs it takes into consideration its stakeholders' needs, and the value proposition to its main

[156] Alkaloid Skopje, 'Who Are We' <https://alkaloid.com.mk/our-company>.
[157] Alkaloid Skopje, 'Integrated Management System (IMS) Policy of Alkaloid' <https://alkaloid.com.mk/strapi/uploads/IMS_policy_17_03_2020_EN_e5963476fb.pdf>.
[158] Alkaloid Skopje, 'Integrated Management System (IMS) Policy' <https://alkaloid.com.mk/ims-policy>.
[159] ibid.
[160] Alkaloid Skopje, 'Enviromental Protection' <https://alkaloid.com.mk/environment-protection>.
[161] Alkaloid Skopje, 'Energy Efficiency Projects' <https://alkaloid.com.mk/list-of-energy-efficiency-projects>.
[162] Alkaloid Skopje, 'Corporate Social Responsibility' <https://alkaloid.com.mk/our-impact>.

stakeholders, including customers and clients, employees, community and shareholders. A list of national institutions, educational and business associations from the local community is presented.[163] Alkaloid publishes press releases, interviews and videos on its achievements and on sustainability matters.[164]

As a drug manufacturer, Alkaloid implements several mechanisms to gather information on possible negative effects from the company's activities and employees' actions. The website has easy to find adverse effects report form without requiring personal information.[165] A website AlkaSpeakUp which serves whistle blower procedure is operational and allows for anonymous reporting.[166] Lastly, Alkaloid has an educational website for interactions with healthcare professionals.[167]

Alkaloid publishes annual results, which provides information on the company activities on sustainability matters. On corporate governance, the governing and supervisory board composition and shareholder structure are presented. The annual report incorporates governing and supervisory boards reports which informs on the decisions taken by both boards in the reporting year.[168] The company has its own foundation that manages the company's donations. The foundation's activities are presented in the annual report, and provide a descriptive information on the impact on the local communities as well as total amount of support and financial data for each of these activities. [169] The information on environmental issues which is available on the website is presented in the annual report as well.[170] Alkaloid also informs on their internship programme results.[171]

[163] Alkaloid Skopje, 'Social Responsibility Policy' <https://alkaloid.com.mk/social-responsibility-policy>.
[164] Alkaloid Skopje, 'Media Center' <https://alkaloid.com.mk/media-center>.
[165] Alkaloid Skopje, 'Report Drug Reaction' <https://alkaloid.com.mk/report-drug-reaction>.
[166] Alkaloid Skopje, 'AlkaSpeakUp' <https://speakup.alkaloid.com.mk/>.
[167] Alkaloid Skopje, 'ProNet' <https://alkaloid.com.mk/pronet>.
[168] Cementarnica USJE, 'Annual Sustainability Report 2020 Cementranica USJE AD Skopje' (n 148). p. 11-19
[169] ibid.
[170] ibid. p. 37-40
[171] ibid. p. 28-30

4.3. Case study III: Makedonski Telekom AD Skopje

Makedonski Telekom is a telecommunications operator which is part of the Deutsche Telekom Group since 2001. The company provides voice and data services via mobile and fixed networks, Internet services, convergent services, digital television and advanced cloud and ICT solutions. The company position itself as leading company in digitalisation of society that promotes sustainable values. The company informs it takes responsible decisions on environmental matters as part of its strategic commitment statement to contribute to environment protection.[172]

The company draws its approach in relation to legal and ethical standards (business ethics standards) from its parent company, Deutsche Telekom Group. In order to ensure that all business activities are in accordance with, Makedonski Telekom implements corporate compliance program. The programme goal and its elements are explained on the company website.[173] None of these documents however are available on the company website. The company has its Code of Conduct and a handbook for employees published on its website. The company extends its ethical standards to its suppliers. Each supplier is required to register on the Makedonski Telekom Procurement site, where it has to acknowledge the Group's Code of Conduct and anti-corruption clause. An assurance standard and ISO standard on anti-corruption as well as the assurance standard on anti-trust are available on the company website. It should be noted that the external verification and certification are done on group level rather than for the observed subsidiary – these standards are awarded to Deutsche Telekom Group rather than to Makedonski Telekom. The company has a statement on zero tolerance on anti-corruption on its website, and elaborates the activities it takes to ensure this goal is achieved including in its value chain.[174] Makedonski telekom is the only company from all observed companies in this research that has a human rights policy published on its website. The policy informs that is developed in line with internationally recognised norms, directives and standards, the actions the company takes in ensuring that its employees and business partners ensure respect to human rights in their work and operations.[175] Makedonski Telekom has its own foundation that manages the donations and sponsorships.[176]

The company approach to environmental and social issues, and sustainable work practices is elaborated in a social responsibility section on the company website. In each section, the company informs about is specific goals and the actions it takes to achieve those goals, but the results are not presented. The only area with information on the company impact and results, including quantitative data, is the network coverage for all citizens in the country as part of its commitment to enable equitable access to telecommunications networks.[177] It should be noted that this is actually the company's core business. The company has a Health, safety and environmental policy which communicates the company's commitment and approach in addressing these issues, but does not outline of the company's policies actions and results it seeks to achieve.[178] In its annual report, Makedonski telekom discloses the remuneration as well as income from other employer of each of its board members. It is the only company from the ones observed to present detailed information. However, the information presented in regards to environmental and social issues is limited to turnover rate, health and safety activities it took in the reporting year and donations to community.[179]

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[172] Makedonski Telekom, 'Leading Telecommunications Operator' <https://www.telekom.mk/company-profile.nspx>.
[173] Makedonski Telekom, 'The Management's Statement' <https://www.telekom.mk/compliance-10121.nspx>.
[174] ibid.
[175] Makedonski Telekom, 'Code of Human Rights and Social Principles' <https://www.telekom.mk/code-of-human-rights-and-social-principles-old.nspx>.
[176] Makedonski Telekom, 'Foundation' <https://www.telekom.mk/foundations-2813.nspx>.
[177] Makedonski Telekom, 'Our Thoughts and Actions Are Oriented towards a Society in Which Life Is Cherished for the Benefit of the Future Generations' <https://www.telekom.mk/corporate-social-responsibility-10411.nspx>.
[178] Makedonski Telekom, 'Health, Safty and Enviromental Policy of Makedonski Telekom AD Skopje' <https://www.telekom.mk/download/iso/Health%20Safety%20and%20Environmental%20Policy%20of%20MKT.pdf>. p. 11-15
[179] 11- 15 https://www.telekom.mk/download/Investor_Relations/2020/Telekom-Annual-report-2020-EN-V7.pdf

Section 5: Conclusions and Recommendations

The private sector plays an important role in sustainable development. Companies intentionally or unintentionally contribute in achieving global and national commitments on Sustainability Development Goals. Communicating their efforts and results on their involvement in addressing environmental, social issues, and adopting good governance practices in execution of their operations is beneficial for both the company and its stakeholders.

The EU for the first time introduced minimum reporting requirements on companies' non-financial performance with the NFRD. In the period of its implementation, companies faced difficulty in identifying relevant i.e. material information for its stakeholders. Users of information pointed out to adequacy, relevancy and reliability issues of the disclosed information. In response to these issues, and above all the demand for more information, The EC adopted several action plans which brought major change to the EU's regulatory framework. A set of regulations and directives were adopted that have increased the companies reporting and transparency requirements on sustainability matters. The CSRD in particular, once adopted and enter into force, would oblige more companies to disclose machine readable information in regards to environmental, social and governance issue, reviewed by independent authority.

In North Macedonia, on the other hand, the regulatory framework on companies reporting on sustainability matters was introduced just recently. The newly adopted CGC and ESG guidelines of the MSE build on the EU regulatory framework and global best practices. The Code's principles and provisions, however, do not match in full the EU rules. The scope of application of the Code, as defines with the amendments to the Listing rules, have been altered to reflect the company size of the listed companies at the MSE. If the NFRD scope were to be applied, only few of the listed companies would have to comply with the Code's rules. However, opting for criteria related to trading of companies shares, rather than number of employees, company turnover or value as it is the case in the EU and its member states would lead to different treatment of direct competitors.

The CGC also do not reflect in full the disclosure requirements set out in the Directive. For one, the disclosure requirements fall short in the depth and breadth compared to the ones in the EU. Companies are required to disclose just their policy documents on governance matters without disclosing information on the results from the implementation of those policies. The Code vaguely defined and do not specify what information companies should disclose on environmental and social issues either. The ESG Reporting Guidelines provide some guidance on minimum disclosure requirements and KPIs, but the guidelines are not obligatory to be used by companies. Opting for loose and ambiguous recommendations may only lead to problems of adequacy and relevance of disclosed information, as it has already been proven in the EU. Also, given that the EU is in process of adopting the new CSRD, it is pertinent for the MSE to follows the sustainability reporting rather than non-financial reporting approach. Given that EU is to develop standardised reporting formats which companies would have to use, further convergence with those requirements would be an obligation in the EU accession process. Alignment with those requirements would also come to benefit for companies in North Macedonia which would have to information relevant not just to domestic, but also to European stakeholders.

Last but not least, the way the Code's principle and provisions transpose the materiality principle in ESG reporting context is problematic. The companies that opt to implemented the Code principles rather than to comply with the Code's provisions for a period of time, would not be obliged to report same information as the ones that opted for full implementation of the code. This would not only allow the former to avoid disclosing requested information, but may lead to unequal treatment to listed JSC of similar size, market share or value.

Even that the rules of the MSE lower the bar on reporting requirements compared to the EU rules, the application of the new CGC has been postponed. This postponement suggests that the companies are not ready to fully implemented the Code's provisions. As previous evidence and the findings of this research suggest, just a small fraction of observed companies provide information most of the minimum recommended disclosures on their interaction with environmental, social and governance issues. It is beyond the scope of this research task to explore the reasons that lead to the status quo, but it is reasonable to consider the lack of support and stimuli by state and non-state actors, lack of awareness and resources, and the lack of understanding of the process and benefits that come with ESG reporting as possible reasons behind the poor performance in this regard to date.

In practice, companies many companies have environmental policies, and inform on the actions they take, at least declaratively, but only few provide data on their impact on environmental matters or how these matters affect their business. Majority of the companies do not inform on their business ethics practices. A third of the companies observed in this research have published a code of ethics, anti-corruption policy and whistle blower procedure. Data privacy and protection is an exemption in the business ethics standards disclosure requirements with almost all companies having their policies published on their websites. However, only third have contact to data protection officer on their website which would make easier to stakeholders to engage with the company on this matter. The observed companies perform better on social matters disclosure. More than half of the companies disclose board members remuneration and employee turnover data. Less than half of the companies have publicly available information on their position on human rights and the working conditions they offer. Just a small fraction of the companies discloses information on their labour standards. Last but not least, large majority of the companies inform on their donations, sponsorships and interactions with local communities.

Besides the issues of non-disclosure, the relevance of disclose information may also be questioned. Companies tend disclose policies and actions the company takes on given issue, at least declaratively. However, the companies rarely report on the outcomes of those policies and actions. As the case studies show, even the best performing companies do not report on all recommended disclosure requirements. Description on the progress in regards to set targets is lacking, financial and non-financial indicators and KPIs in particular. In short, companies perform well on paper - they adopted policies, and informs on the activities they have committed to, but there is a lack of evidence of their implementation and the results archived.

The reported interactions with the civil sector were of particular importance of this research.

The findings suggest on rare and weak links between companies and CSOs on environmental and social issues, as well as on business ethics practices. In several cases CSOs have educational function in terms of providing training to companies or trough awards and recognitions on companies environmental and social footprint full fill an assessments function. Most of the companies report donations to CSOs and only few have established deeper cooperation where CSOs distribute companies' financial and in-kind donations to local communities. These isolated examples, however, suggest that the civil society and private sector cooperation has untapped potential that could be further exploited to generate even greater benefits for the community and the environment.

Needless to say, one should consider that the ESG reporting in North Macedonia is in nascent phase. The delayed application of the new CGC did nothing more than to buy time for companies to prepare for its application. The formal obligations would inevitably motivate companies to mobilise recourses to meet the minimum disclosure requirements. The raising interest in the companies' performance beyond their financial results, both by domestic and international stakeholders, should be catalyst for greater company transparency. Last but not least, part of the companies in North Macedonia recognise their role and responsibility in regards to environmental and social issues and implementation of good governance practices. Joint efforts in by companies and relevant stakeholders, in particular the MSE and the civil society sector, in rising awareness, capacity building would support the greater involvement of the private sector and monitoring of their contribution to sustainable development in North Macedonia.

Recommendations for the Macedonian Stock Exchange

- Act to raise awareness on companies' role in sustainable development, and the benefits that come with transparency on environmental, social and governance matters

- Regularly consult listed JSC on their needs in meeting the principles and provisions of the CGC, including in relation to environmental, social and governance matters among other obligations

- Support transfer of knowledge and provide technical support, where possible, to JSC in relation to ESG reporting

- Adopt best practices on cooperation between the companies and other societal actors, including CSO in related to environmental, social and governance issues

- Monitor closely the developments on the regulatory landscape on sustainability reporting and transparency, particular in the EU

- Progressively aligned the ESG reporting requirements for listed companies on the MSEs with the ones in the EU with special attention to application of the materiality principle. Incorporate these reporting requirements in the CGC principles and provisions to ensure equal treatment and level playing field among listed companies

Recommendations for companies

- Commit to transparency on company's actions and results in regards to environmental, social and governance matters relevant for the company, including through voluntary disclosures with application of double materiality principle

- Commit to corporate accountability in regards to environmental, social issues and governance ethics matters, including trough prioritisation of the sustainability agenda on highest governing and executive level

- Hire experienced professionals or train managers and employees to improve the company's capacities to deal with environmental, social and governance matters

- Contribute to the process of setting reporting standards on national level in regards to ESG reporting and, if relevant, on European level in regards to sustainability standards, including trough participation in consultations and meetings with state institutions and regulators

Subject area	Disclosure item	Recommended minimum disclosures and KPIs	Reference to CGC / ESG Guidelines	Assessment process
Business ethics standards	Code of Ethics	Code of Ethics	• Corporate Governance Code Section 3.2 • ESG Guidelines 4.3 • Recommended minimum disclosures and KPIs	For positive assessment, the researcher can access a document a document named Code of Ethics or Code of Conduct. For positive assessment, the researcher can access a document that outlines standards of ethical business conduct, company's values and principles and provides guidelines of behaviour for employees (and third parties).
		Steps to ensure compliance	• ESG Guidelines 4.3 • Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify a sentence in a document/part of document/ text that provides information on the company's actions to implement standards of ethical business conduct, company's values and principles and provides guidelines of behaviour for employees (and third parties).
	Anti-corruption policy	Anti-corruption policy	• ESG Guidelines 4.3 • Recommended minimum disclosures and KPIs	For positive assessment, the researcher can access a document/ part of document that is named Anti-corruption policy. For positive assessment, the researcher can identify sentence that implies the company's position on bribery and corruption
		Steps taken to ensure compliance	• ESG Guidelines 4.3 • Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify a sentence in a document/part of document/ text that provides information on the company's action(s) on the implementation of the anti-corruption policy.

	Whistle blower procedure (grievance mechanism)	Whistle blower procedure is adopted	• Corporate Governance Code Section 5.8 • Recommended minimum disclosures and KPIs	For positive assessment, the researcher can access a document/ part of document/text that is named Whistle blower procedure. For positive assessment, the researcher can identify sentence that provides information on the company's system on reporting of suspected or actual breaches of law, violations of rules or other misconduct.
		Methods for violation or concern reporting	• Corporate Governance Code Section 5.8 • Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify methods for reporting a violation or concern (dedicated email, reporting hotline, online form, downloadable letter). For positive assessment, the researcher can identify a sentence in a document/part of document/ text that provides information on the company's action(s) methods for reporting a violation or concern and the process for handling of the reports.
		Process for handling reports	• Corporate Governance Code Section 5.8 • Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify a sentence in a document/part of document/ text that provides information on the company's process for handling reports of violation or concerns.
	Privacy and data security	Privacy and data security	• ESG Guidelines Figure 1 Examples of ESG issues	For positive assessment, the researcher can access a document/ part of document/text that is named Privacy and data security policy. For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's privacy policy

Social issues	Workforce composition	Workforce composition	• Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's workforce composition policy. For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's workforce composition by gender, employment type age group and geography.
	Employee turnover	Turnover rate	• Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on employee turnover rate.
	Labour standards	Measures to support workers' rights, Human rights risk assessment, Operations with high exposure to Human rights violation, child and forced labour, Actions for risk mitigation	• Recommended minimum disclosures and KPIs	For positive assessment, the researcher can access a document/ part of document/text that is named Labour standards/Labour policy. For positive assessment, the researcher can identify sentence in document/part of document/ text that provides information on the company's basic principles and norms and action to address labour issues as provided in recommended minimum disclosures.
	Human Rights Policy	Human Rights Policy	• Recommended minimum disclosures and KPIs	For positive assessment, the researcher can access a document/ part of document/text that is named Human rights policy. For positive assessment, the researcher can identify sentence in document/part of document/ text that provides information on the company's basic principles and norms and action to Human rights policy.

	Working conditions	Working conditions	• Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's working conditions. For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's actions to address/improve company's working conditions.
	Health and safety policy	Health and safety policy	ESG Guidelines 4.3 Roles and responsibilities	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's Health and safety policy. For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's actions to address/improve company's Health and safety conditions.
	Employee training	Employee training	Figure 1 Examples of ESG issues	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's approach in providing employee training. For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's actions to improve company's employee training approach.
	Community relations	Community relations	Figure 1 Examples of ESG issues	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's approach to community relations. For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's actions to improve community relations.

	Product stewardship	Product stewardship		For positive assessment, the researcher can identify sentence in document/part of document/ text that provides information on the company's approach to product stewardship. For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on specific examples of company's product stewardship
Environ-mental issue	GHG emissions	Methods and assumptions	ESG Guidelines 4.3 Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's methods and assumptions used for calculation of the emissions.
		GHG emissions	ESG Guidelines 4.3 Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's GHG emissions.
		Performance change	ESG Guidelines 4.3 Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on changes of company's performance due to changes on GHG emissions.
	Energy consumption	Methods and assumptions	ESG Guidelines 4.3 Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's methods and assumptions used for calculation of the energy consumption.

		Energy consumed	ESG Guidelines 4.3 Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the energy consumed by the company.
		Type of energy	ESG Guidelines 4.3 Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on percentage of energy consumed by type of energy by the company.
	Water consumption (if relevant)	Water consumed	ESG Guidelines 4.3 Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on water consumption within the company.
		One of activities in water use reduction; water circularity	ESG Guidelines 4.3 Recommended minimum disclosures and KPIs	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information the company's actions to reduce water use, increase water circularity and preserve water
	Raw materials use	Raw materials use	ESG Guidelines 4.3	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on raw materials used by the company.
	Pollution and waste	Waste management	ESG Guidelines 4.3	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's actions in regards to waste.
	Biodiversity		ESG Guidelines 4.3	For positive assessment, the researcher can identify sentence in document/part of document/text that provides information on the company's actions to preserve biodiversity.

Annex 2: Companies list

No.	Name	Industry sector	Code	City
1	Alkaloid AD Skopje	Pharmaceuticals	**ALK**	Skopje
2	VV Tikves AD Kavadarci	Food and beverages	**TKVS**	Kavadarci
3	Vitaminka AD Prilep	Food and beverages	**VITA**	Prilep
4	Granit AD Skopje	Construction	**GRNT**	Skopje
5	ZK Pelagonija AD Bitola	Agriculture	**ZPKO**	Bitola
6	Interpromet AD Tetovo	Trade	**INPR**	Tetovo
7	Komercijalna banka AD Skopje	Financials (Banking)	**KMB**	Skopje
8	Liberti AD Skopje	Steelmaking	**RZLV**	Skopje
9	Makedonija osiguruvane AD Skopje - Viena Insurens Grup	Financials (Insurance)	**KJUBI**	Skopje
10	Makedonijaturist AD Skopje	Hospitality and tourism	**MTUR**	Skopje
11	Makedonski Telekom AD – Skopje	Telecommunications	**TEL**	Skopje
12	Makpetrol AD Skopje	Oil and energy	**MPT**	Skopje
13	Makstil AD Skopje	Steelmaking	**STIL**	Skopje
14	NLB Banka AD Skopje	Banking	**TNB**	Skopje
15	OKTA AD Skopje	Oil and energy	**OKTA**	Skopje
16	Pelisterka AD Skopje	Food and beverage	**LOZP**	Skopje
17	Rade Koncar- Aparatna tehnika AD Skopje	Industry	**RADE**	Skopje

18	Replek AD Skopje	Pharmaceuticals	**REPL**	Skopje
19	Stopanska banka AD Bitola	Banking	**SBT**	Bitola
20	Stopanska banka AD Skopje	Banking	**STB**	Skopje
21	Teteks AD Tetovo	Industry	**TETE**	Tetovo
22	TTK Banka AD Skopje	Banking	**TT**	Skopje
23	Tutunski kombinat AD Prilep	Tobacco	**TKPR**	Prilep
24	UNI Banka AD Skopje	Banking	**UNI**	Skopje
25	Fersped AD Skopje	Freight forwarding	**FERS**	Skopje
26	Cementarnica USJE AD Skopje	Steelmaking	**USJE**	Skopje
27	Centralna kooperativna banka AD Skopje	Banking	**CKB**	Skopje

Annex 3: Comparison on disclosure requirements in North Macedonia and the European Union

Non-Financial Reporting Directive and Guidelines on non-financial reporting and supplement on climate change related information	Corporate governance Code and ESG guidelines	Corporate Sustainability Reporting Directive
Environmental issues • material disclosures on pollution prevention and control; • environmental impact from energy use; • direct and indirect atmospheric emissions; • use and protection of natural resources (e.g. water, land) and related protection of biodiversity; • waste management; • environmental impacts from transportation or from the use and disposal of products and services; and • Green products and services	**Environmental issues** • Methods and assumptions, direct and indirect GHG and significant performance changes • methods and assumptions, energy use, including by source and type of energy • water consumption and activities to reduce water use, increase water circularity and water resources preservation. • Other significant impact on the environment and natural resources, biodiversity	**Environmental factors** • climate change mitigation; • climate change adaptation; • water and marine resources; • resource use and circular economy; • pollution; • biodiversity and ecosystems;
Social issues • the implementation of International conventions • diversity issues, and equal treatment • employee consultation and/or participation, employment and working conditions; • trade union relationships, • human capital management • health and safety at work; • consumer relations • responsible marketing and research • community relations **Respect for human rights** • potential and actual impacts of their operations on right-holders. • expected management, employees and business partners commitment to respecting human rights, including core labor standards, • disclosures on human rights due diligence, and on processes and arrangements implemented to prevent human rights abuses.	**Social issues** • workforce compensation by gender, employment type, age group and geography. • employee turnover • labour standards (measures to support freedom of association and collective bargaining; assessment and disclosure on operations exposured to human rights risks, including child labour and forced labour in its own operations and in the supply chain) • human rights policy extended to suppliers and business partners that refers to International Bill of Human Rights and ILO's Declaration on Fundamental Principles and Rights at Work	**Social factors** • equal opportunities (gender equality and equal pay for equal work, training and skills development, and employment and inclusion of people with disabilities) • Working conditions (secure and adaptable employment, wages, social dialogue, collective bargaining and the involvement of workers, work-life balance, and a healthy, safe and well-adapted work environment) • Respect for the human rights, fundamental freedoms, democratic principles and standards (established in the International Bill of Human Rights and other core UN human rights conventions, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work and the ILO fundamental conventions and the Charter of Fundamental Rights of the European Union.)

Anti-corruption and bribery matters How anti-corruption and bribery is managed	Business ethics standards	Governance factors
• Organization, decisions, management instruments, and on the resources allocated to fighting corruption and bribery. • Assessment process on fight against corruption and bribery, • Prevention and mitigation, monitor effectiveness	• Anti-corruption policy that extends to suppliers and business partners and steps to ensure compliance. • Whistle-blower procedure or a grievance mechanism, methods for reporting a violation or concern and the process for handling of the reports. • Company's values and principles for employees and third parties' behavior in Code of Ethics and steps that the company has taken to ensure compliance. **Corporate governance** • Shareholder rights and engagement • Supervisory and management board roles, including in sustainability matters. • Conflicts of interest • Risks and control, including on sustainability matters.	• Roles of companies' bodies, including in regard to sustainability matters, and their composition; • Business ethics and corporate culture, including anti-corruption and anti-bribery; • Political engagements, including lobbying • Business partners relationships management and quality, including payment practices; • Internal control and risk management systems, including in relation on reporting process.

CORPORATE SUSTAINABILITY REPORTING AS A MEAN FOR ENGAGED PRIVATE SECTOR

Regulatory framework and reporting practices on corporate sustainability reporting practices in North Macedonia

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