



Македонска берза
Macedonian stock exchange



European Bank
for Reconstruction and Development



ESG Reporting Guidelines

Disclaimer

This report is informed by the Macedonian and European legislative landscapes and international standards and frameworks on sustainability reporting available by the cut-off date of the publication (31 January 2022). As the relevant ESG reporting standards and legal framework develop over time, the contents of these guidelines may have to be updated in the future.

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Foreword by MSE



Ivan Shteriev

CEO, Macedonian Stock Exchange

The world in general and businesses in particular are facing new challenges in ensuring long term sustainability. The Environmental, Social and Governance (ESG) aspects of running a corporation are becoming more and more important. At the same time, investors are increasingly including ESG factors in their investment strategies and require companies to report on their ESG practices. Hence, companies are becoming more aware of ESG factors and are starting to integrate them into their business organisation and decision-making processes.

ESG reporting allows companies to measure the direct consequences of their activities on the environment and the society. Also, consistently integrating ESG considerations into business decisions is an inevitable step towards sustainable business performance. From a standpoint of investors, ESG factors are becoming crucial for the sound investment decisions.

Stock exchanges worldwide play an essential role in promoting sustainable investment by enhancing transparency and building trust and confidence. As Macedonian Stock Exchange, we are firmly

committed to the promotion of sustainable finance disclosure. We are members of the Sustainable Stock Exchanges Initiative (SSE), which demonstrates our intention to encourage sustainable investment and to highlight the importance of ESG topics.

For exactly these reasons we dedicated a chapter specifically related to these issues in the new Corporate Governance Code of the Macedonian Stock Exchange developed together with the Securities and Exchange Commission of the Republic of North Macedonia. This new Code, besides other reporting requirements, requires the biggest and most liquid listed companies to report on environmental and social issues based on the principle of transparency and in accordance with relevant legal requirements and good international practices.

In order to support this new reporting process, we developed and launched these ESG Reporting Guidelines. Supported by the European Bank for Reconstruction and Development (EBRD) and together with our consultants from Steward Redqueen, we created comprehensive guidelines supporting issuers with ESG disclosure. MSE's ESG Guidelines for Listed Companies are intended to be a practical tool for our listed companies to provide ESG disclosure according to our Corporate Governance Code and the latest international standards in this area. These ESG guidelines have been created to assist MSE's listed companies in their interactions with investors, to help them understand how to internally address ESG issues as a key component of investor relations and how to manage ESG factors, as well as to assist them in enjoying more visibility as a benefit of their ESG commitment.

We hope this educational and guiding material will inspire and improve listed companies' ESG journey towards a more sustainable and risk-free business environment as well as more sustainable future of our economy and society.

Foreword by EBRD



Henrik Linders

Managing Director, Environment & Sustainability, EBRD

Sustainability reporting has become a core dimension of the development of modern capital markets. The increasing push from policy-makers, regulators and institutional investors is driving a growing share of global financial flows towards sustainable investment. This growth further requires more transparency around the way issuers manage environmental, social and governance risks. Taking actions to mitigate global challenges such as climate change or biodiversity loss has never been more critical.

Environmentally sound investment and sustainable development lie at the heart of the mandate of the European Bank for Reconstruction and Development (EBRD) and is underpinned in each project by our Environmental and Social Policy. The EBRD is a supporter of the Principles for Responsible Investment (PRI) and was the first multilateral development bank to sign up to the Task Force for Climate-related Financial Disclosure (TCFD) in 2018. Having published its first climate-related disclosure reports (2020 and 2021), the EBRD is committed to promoting sustainability finance and climate

governance among its clients and partners. Under its Green Economy Transition (GET) approach (2021-2025), the EBRD has reinforced its position as a leader in green finance with an ambitious plan to broaden and deepen its climate activities and become a majority green bank by 2025.

„The EBRD has been a reliable partner of North Macedonia for the past 30 years. In 2021, 61% of our investment in North Macedonia was green. We are committed to continuing supporting the country in its transition to a low carbon and climate resilient economy in line with the EU sustainability finance considerations and international best practices.“

- Andi Aranitasi, EBRD Head of North Macedonia

The growing appetite for sustainable investment has increased the demand for better access to ESG data, intelligence, ratings and scores; to allow more comparability, and more effective due diligence and modelling for investment purposes. Sustainable finance is a cornerstone of the EU policy and strategic agenda centred on the recognition that the management of ESG risks is vital as countries move towards net zero economies. It is also essential for unlocking new business opportunities in a context where social expectations have evolved.

There is a growing pressure on companies to adhere to international best practices on sustainability reporting. As North Macedonia continues on its path towards EU accession, it will be essential to align national regulations and market practices with the new EU sustainability framework and increase the awareness of issuers and companies of sound ESG disclosure.

As part of our country policy engagement, the EBRD is pleased to have been able to support our partner, Macedonian Stock Exchange, to develop these timely and informative Guidelines for ESG Reporting (the Guidelines). This work takes into account the increased demand from investors for consistent and

comparable ESG data and integrates the key principles of the EU sustainable finance policy framework aimed at supporting the transition to a climate-neutral, green, competitive and inclusive economy.

The main objectives of the Guidelines are to support listed issuers in their efforts to develop their ESG reporting practices and provide local and international investors with quality information. MSE has a powerful role in facilitating ESG information flow between companies and investors by fostering transparency, providing guidance and services, and raising awareness to its clients and the broader group of stakeholders.

This innovative guide is a testament to MSE's commitment to help companies effectively identify and manage ESG risks and opportunities and develop an attractive market where investors can better assess the prospective drivers of value creation. This, in turn, will contribute to the development of a well-functioning and more resilient market, which would steer investment towards climate and sustainable development priorities.



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Abbreviations and acronyms

CDSB	Climate Disclosure Standards Board
CSR	Corporate Social Responsibility
CSRD	Corporate Sustainability Reporting Directive
EBRD	European Bank for Reconstruction and Development
ESG	Environmental, Social and Governance
EU	European Union
GHG	Greenhouse gases
GRI	Global Reporting Initiative
IIRC	International Integrated Reporting Council
NFRD	Non-Financial Reporting Directive
MSE	Macedonian Stock Exchange
PRI	Principles for Responsible Investment
SASB	Sustainability Accounting Standards Board
SDGs	Sustainable Development Goals
SFDR	Sustainability Finance Disclosure Regulation
SME	Small and Medium Enterprises
SSE	Sustainable Stock Exchanges
TCFD	Task Force on Climate-related Financial Disclosures
TSC	Technical Screening Criteria

01 Introduction

Companies face increasing pressure to disclose their environmental, social and governance (ESG) performance and impacts. This trend is driven by a variety of factors, including a changing regulatory landscape, integration into decision-making of ESG issues by investors and other financial services providers, and broader societal expectations. At the same time, there is a growing recognition among companies that better ESG performance can lead to operational efficiencies, better risk management, lower cost of capital, new business opportunities and a better reputation. Macedonian companies and a range of institutions in the country have also recognised the relevance of ESG, although most of them are in the starting phase of their ESG journey. As concluded in recent research¹ sustainability in North Macedonia is expected to benefit significantly from projects that stimulate sustainability reporting. This is considered important for various reasons, including the need to anticipate the EU agenda as sustainability management is conditional for companies operating in that market.

The ESG agenda is advancing around the world and the EU has the ambition to take a leading role. As a country candidate for EU membership, harmonisation of the legislation and practices of the Republic of North Macedonia with EU is constantly in focus. At the EU level, several policy measures have been implemented under the European Green Deal and supplementary Sustainable Finance Action Plan to improve disclosure of ESG information by companies and investors, increase market

transparency and re-direct capital flows towards sustainable investments. These include the Non-Financial Reporting Directive² (NFRD) that is being amended and will be replaced by the Corporate Sustainability Reporting Directive³ (CSRD), the EU Taxonomy Regulation as well as the Sustainable Finance Disclosure Regulation⁴ (SFDR).

While not generally applicable to Macedonian companies and financial institutions now, those three regulations are expected to further accelerate the demand for corporate ESG disclosures. Companies that will voluntarily and proactively align their practices with the ESG trend in general and even the requirements set forth for the broader European market will be better positioned to access financing and grow internationally.

The pressures facing listed companies to own up to ESG disclosures will not go away. For issuers this is a mounting challenge – to meet these expectations, to meet competitive pressures also in this space, while taking into consideration limited resources as well as capacity gaps. The intention of these Guidelines is to help issuers commence their ESG reporting by outlining a practical step-by-step approach and what topics for ESG disclosures could be considered. This is by no means an exhaustive overview, but more of an initial orientation. Other markets, especially within the EU, have progressed this work over many years, with more exacting and detailed guidelines, and with various examples of issuer ESG reporting that can serve as an inspiration.

¹ Corporate Social Responsibility in North Macedonia by Florida Veljanoska published in Current Global Practices of Corporate Social Responsibility, 2021, pp 257 – 286

² Official Journal of the European Union. 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 (Publ. 15 November 2014). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>

³ 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 (Publ. 21 April 2021) <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0189>

⁴ Official Journal of the European Union. 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 (Publ. 18 June 2020). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32020R0852>

⁵ Official Journal of the European Union. 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 (publ. 27 November 2019). <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN>

1.1 The purpose of the Guidelines

The MSE Corporate Governance Code⁶ (“the Code”) advocates that companies report on environmental and social issues based on the principle of transparency and in accordance with relevant legal requirements and good international practices. These Guidelines aim to support this reporting process, while providing a broader view on the reporting context and practices. The Guidelines aim to strengthen companies’ understanding of ESG issues and related reporting frameworks and standards. Moreover, they provide guidance on how companies can communicate their ESG performance in a meaningful way.

In short, the key objectives of the Guidelines are to:

- Provide companies with specific information on meeting the ESG reporting expectations in North Macedonia.
- Provide a broader context on ESG reporting developments, standards and good practices to prepare for the requirements of the international financial community.
- Help advance ESG performance in North Macedonia and capture the subsequent benefits.

1.2 MSE’s efforts to encourage good corporate governance and transparency on ESG issues

There is increasing evidence that the ESG agenda is advancing in North Macedonia. The Macedonian Stock Exchange is a member of the Sustainable Stock Exchanges Initiative (SSE). The SSE provides a platform for exploring how exchanges, in collaboration with investors, companies, regulators, policymakers, and other relevant actors can enhance performance on ESG issues and encourage sustainable investment, including the financing of the UN Sustainable Development Goals.

To encourage adoption of strong corporate

governance standards and increase the level of disclosure on ESG-related topics MSE has published two important documents that should be considered in parallel:

1. The Corporate Governance Code for Companies Listed on the Macedonian Stock Exchange, and
2. These ESG Reporting Guidelines.

The Code covers all important issues of corporate governance and provides companies with a roadmap for good corporate governance. The new Code also introduces certain ESG topics beyond governance, such as: engagement with stakeholders, business ethics and general sustainability.

Specifically, it:

- Asks companies to organise regular stakeholder engagements.
- Emphasises the importance of considering environmental and social impacts in the company strategy, business model and risk management system, and extending board oversight responsibilities to sustainability issues.
- Asks companies to publish on their website a Code of Ethics and establish a whistle-blower procedure for reporting of breaches and unethical behaviour.
- Asks companies to publish relevant environmental and social policies.

The Guidelines, on the other hand focus on broader set of ESG issues and provide a useful context for establishing an effective ESG reporting process. They do not discuss Corporate Governance in any greater detail but rather refer to the Code to avoid the risk for overlaps, and inconsistencies. To ensure consistency, they make specific reference to Section 6 – Stakeholder’s sustainability and social issues of the Code (Chapter 4) and provide a set of minimum disclosure recommendations (Appendix A) to facilitate companies’ communication with investors and other stakeholders and compliance with the Code’s sustainability-related provisions.

⁶ The Corporate Governance Code for companies listed on the Macedonian Stock Exchange (Publ. October 2021) <https://www.mse.mk/en/content/14/10/2021/corporate-governance-code>



ESG DISCLOSURE PRACTICES OF MACEDONIAN COMPANIES

As part of the development of the Guidelines, a workshop was organised with companies and one with financial institutions. On the basis of these workshops, it can be concluded that:

While more and more companies in North Macedonia recognize the importance of integrating ESG considerations into business operations, overall, more capacity building is needed to develop ESG knowledge and expertise among staff members and senior management.

For many companies in Europe, notably those active on the EU markets, disclosure of ESG information is driven by regulatory requirements. Investors and other capital providers are also demanding greater transparency on how companies are managing ESG issues. Macedonian companies recognise the potential of integrating ESG in their reporting.

Many companies have just started to embrace sustainability and are focusing on various environmental and social initiatives. However, they have not yet comprehensively assessed material ESG risks and opportunities within their value chains or integrated them into their long-term business strategies.

International companies, or companies that are subsidiaries of foreign companies, tend to be somewhat more advanced, either because they have been asked to provide certain ESG data to their parent companies or due to the need to comply with international norms and regulations (also as part of their participation in international and EU tenders). Previous engagements with the EBRD or IFC have been also helpful in increasing companies' awareness of ESG.

Nonetheless, overall the reporting on ESG issues among Macedonian companies is at an early stage and remains limited in scope.⁷

⁷ Corporate Social Responsibility in North Macedonia by Florida Veljanoska published in Current Global Practices of Corporate Social Responsibility, 2021, pp 257 – 286

02 What is ESG and why does it matter?

Companies and their internal and external stakeholders are increasingly focusing on ESG issues, both in terms of managing short- and long-term ESG risks and opportunities. Evidence shows that companies that integrate ESG considerations into their business strategy and exhibit a high level of transparency are better positioned to create value in the long run, manage existing and potential risks, and attract and retain employees, customers, and business partners.^{8 9 10}

2.1 What does ESG mean?

The terms ESG and sustainability are often used interchangeably. While subtle nuances exist, both terms refer to a broad range of environmental, social and governance considerations that are used to evaluate how companies are managing their sustainability performance and impact.¹¹ **Figure 1** below illustrates examples of different ESG issues.

Environmental factors cover issues that arise from or affect the natural environment. They include but are not limited to the company’s contribution to

climate change through GHG emissions; the energy, water and other resources it is using; the waste it discharges, and the impact of its business activities on natural environment and biodiversity.

Social factors relate to how the company affects people and communities it interacts with – employees, clients, suppliers, and other stakeholders – and how they in turn may affect the company. They include but are not limited to issues such as working conditions, health and safety, diversity and inclusion, respect for human rights and impact on local communities.



Figure 1 – Examples of ESG issues

⁸ The International Finance Corporation (IFC): The business case for sustainability, https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/business-case

⁹ Harvard University’s Law School: “The business case for ESG”, <https://corpgov.law.harvard.edu/2019/06/04/the-business-case-for-esg/>

¹⁰ Stanford University’s Graduate School of Business: “The business case for ESG”, <https://www.gsb.stanford.edu/faculty-research/publications/business-case-esg>

¹¹ The term corporate social responsibility (CSR) has been historically used in the context of corporate philanthropy and employee volunteerism and tends to be interpreted to only cover the social dimension of ESG. For this reason, it has not been used in these Guidelines.

Governance factors refer to a system of internal controls and procedures by which a company is operated. They include issues such as board structure and compensation, shareholder rights, business ethics anti-corruption, and privacy and data security, among others. For companies in emerging and frontier markets corporate governance is among the key factors evaluated by international investors.

The ESG factors are sometimes referred to as “non-financial” or “extra-financial”. However, there have been doubts as to the accuracy of those terms, because they imply that the information in question has no financial relevance, whereas ESG issues in fact may have direct implications for corporate financial performance. For example, mismanagement of environmental and social issues can have a direct bearing on a company’s license to operate, its reputation and the motivation of its workforce, leading to potential compliance costs, revenue loss or lower business profitability.

2.2 How can better ESG performance benefit companies?

Companies that pay attention to ESG concerns tend to perform better financially and experience lower risk.¹² As the case for strong ESG management is increasingly recognized, it is important to understand how ESG factors can impact a company’s ability to create value in the long term.

Figure 2 summarises key areas in which strong ESG performance (or lack thereof) can have material financial implications for the company.

Risk management

Integrating ESG risks into overall risk management is key for a company to preserve long-term value. A company that ignores material ESG risks can incur considerable financial costs or suffer reputational damage. Furthermore, mismanagement of ESG risks can lead to compliance costs, regulatory fines, and

penalties. On the flip side, proactive management of ESG risks allows companies to keep abreast of emerging trends and regulations and make more-informed investment planning decisions.

Operational performance

Introducing environmental management systems to reduce water and energy use and waste generation is not only good for the planet but also for any company’s financial bottom line. For many industries, energy is among the largest operational expenses, which means that increasing energy efficiency can help to reduce costs. Furthermore, strong human capital management can boost employee motivation and increase productivity. Conversely, companies with weak practices in this area may experience negative consequences in a form of heightened risk of labour disputes, lower productivity and high turnover rates thus increasing recruitment and training costs.

New business opportunities

ESG is also an important consideration in both business-to-business (B2B) and business-to-consumer (B2C) markets. As businesses become increasingly committed to managing their sustainability impacts responsibly, they are looking for solutions and business partners across their value chains that can help them achieve their goals. This often means incorporation of ESG standards in formal procurement policies and tendering processes. Suppliers able to meet those demands will be best positioned to stay ahead of competitors with weaker sustainability credentials.

Similarly, more and more consumers are changing their purchasing preferences based on ESG factors, such as companies’ social responsibility or environmental footprint. This trend is expected to accelerate, amidst the COVID-19 pandemic with 65% of consumers claiming that they would be more mindful about the impact of their overall consumption in the “new normal.”¹³ Companies that

¹² Various studies have made these findings, including an illustrative study on the UNPRI website by New Amsterdam Partners: “Linking ESG ratings to returns and volatility” - <https://www.unpri.org/listed-equity/linking-esg-ratings-to-returns-and-volatility/164.article>

¹³ Capgemini Research Institute. Consumer Products and Retail: How sustainability is fundamentally changing consumer preferences. Research report (publ. 8 July 2020). <https://www.us.sogeti.com/explore/news/research-how-sustainability-is-changing-consumer-preferences/>

choose to adjust their product offering accordingly will be better placed to tap into the growing market of sustainable products and services and expand their business.

Reputation

Demonstrating commitment to ESG standards and leading international sustainability frameworks can help to enhance companies' reputation and maintain their social licence to operate. Additionally, strong ESG performance can also improve employee perception of the company, affecting its ability to attract and retain talent. This is particularly relevant, as a vast majority (around 70%) of millennials say they prefer working for a company with a strong sustainability agenda.¹⁴ On the other hand, failure to manage ESG impacts can result in negative publicity from NGOs and the media, potentially leading to a loss of sustainability-conscious customers and business partners, or customer boycotts. In extreme cases, high-profile ESG incidents not only damage company reputation but also lead to significant financial costs.

Access to capital and financing

ESG factors have gained importance in the financial sector. Investors, lenders, insurers, and other

financial market participants increasingly recognize that financial factors alone are not sufficient to determine the companies' risk profile and value creation potential. Furthermore, as investors and capital providers are strengthening their approaches to ESG management, they expect their portfolio companies and the companies they finance to demonstrate compliance with adopted policies and standards. As such, the ESG risks a company may face, and the way in which these risks are managed can affect access to capital or the cost of financing.

Stakeholder engagement

Finally, improved transparency on the company approach to managing ESG issues can help enhance stakeholder engagement. This should be seen as a two-way communication where the company not only provides stakeholders (including shareholders) with relevant information but also actively listens to their needs and expectations. Additionally, as investors and ESG rating agencies increasingly scrutinize companies' ESG disclosure, the lack of information about potentially material ESG issues may negatively impact the company's sustainability rating and thereby how it is perceived by investors.

¹² Governance & Accountability Institute, Millennials Really Do Want to Work for Environmentally Sustainable Companies, (publ. 23 February 2019), <https://www.ga-institute.com/newsletter/press-release/article/millennials-really-do-want-to-work-for-environmentally-sustainable-companies-according-to-a-new-su.html>

	STRONG ESG PERFORMANCE	NO OR WEAK ESG PERFORMANCE
 RISK MANAGEMENT	<ul style="list-style-type: none"> – Improved risk management – Staying ahead of emerging trends and regulations – Better long-term investment planning 	<ul style="list-style-type: none"> – Compliance costs, regulatory fines and penalties – Stranded assets
 OPERATIONAL PERFORMANCE	<ul style="list-style-type: none"> – Cost savings resulting from lower energy and water consumption – Improved employee motivation and greater productivity 	<ul style="list-style-type: none"> – Costs resulting from operational inefficiencies – Waste disposal cost resulting from weak waste management practices – Heightened risk of labour unrest, work stoppage and lower employee productivity – High turnover rate and related recruitment costs
 NEW BUSINESS OPPORTUNITIES	<ul style="list-style-type: none"> – Increased B2B opportunities (e.g. by being able to demonstrate compliance with ESG standards in the tendering process) – Increased B2C opportunities (e.g. by catering to the increasing demand for sustainable products and services) 	<ul style="list-style-type: none"> – Falling behind competitors that have already embraced sustainability
 REPUTATION	<ul style="list-style-type: none"> – Maintaining a licence to operate by demonstrating commitment to ESG standards – Increased social credibility and employer branding 	<ul style="list-style-type: none"> – Loss of customers as a result of weak sustainability practices (e.g. high profile ESG incidents) or perception among customers that offered products are unsustainable or unsafe – Difficulties attracting talent
 ACCESS TO CAPITAL AND FINANCING	<ul style="list-style-type: none"> – Improved access to capital, including from long-term institutional investors – More favourable financing conditions 	<ul style="list-style-type: none"> – Loss of financing opportunities or higher financing costs as a result of weak ESG performance
 STAKEHOLDER ENGAGEMENT	<ul style="list-style-type: none"> – Improved understanding of stakeholder needs – Enhanced investor relations and engagement 	<ul style="list-style-type: none"> – Low ESG performance assessment by ESG rating providers affecting investors' perception of the company

Figure 2 – Benefits of strong ESG performance

MSE and banks

Of the top ten companies listed on the MSE in the MBI10 index, five are banks. In view of this, it is relevant to highlight the role and position of banks with respect to ESG, even though these Guidelines do not take a sector focus.

First, it is notable that banks, as well as other financial institutions, can contribute to sustainability in a unique way. An important task for them is to allocate funding to productive use. As sustainability management is increasingly recognised as a part of long-term value creation and as a risk mitigator, ESG is becoming part of what is considered to be allocation to productive use. By allocating funds to sustainable projects, exiting projects that cause significant harm, or by raising the cost of capital for those that may have significant exposure to ESG risks, banks can act as a 'driver for change'. In many countries the financial sector plays an important role in the integration of sustainability in the economy in general, and notably into business practices. The climate challenge that the society faces requires considerable funding. Consequently, the European Banking Federation says: "Europe alone has identified a yearly financial gap of more than 180 bn euro to finance policies and investments necessary to keep the global temperatures in line with the objectives of the Paris Agreement. It is clear that without the private sector the funding gap cannot be closed. Given that around two thirds of the European economy is financed by banks, banks play and will continue to play a crucial role in the transition to a more sustainable future. (...) Most companies are at different stages in their transition journey towards low-carbon and sustainable activities. Banks have a key role to play in supporting corporates on this journey."¹⁵ Obviously, this challenge should be supported by legislation and a range of other initiatives, such as the ESG Reporting Guidelines.

Second, in order to credibly proceed on the ESG journey towards becoming a 'driver for change', banks have to communicate actively with their stakeholders. For one, it is important that governments and regulators facilitate a 'level playing field' in line with international standards. In dialogue with their clients, banks can agree manageable pathways for change. Often (international) capital providers nudge banks towards embracing sustainability, just as societal organisations do in their own fashion. To reach out to the broader stakeholder community and to facilitate communication on sustainability issues, ESG reporting plays an important role. As explained in these Guidelines several frameworks can be used for ESG reporting. Also, a range of KPIs are highlighted that may support a bank's reporting practices.



¹⁵ EBF website: <https://www.ebf.eu/priorities/financing-growth/sustainable-finance/> (accessed November 17th, 2021)

2.3 What are the key drivers of corporate ESG reporting?

There are several factors stimulating corporate ESG disclosure. Changing investment approaches and growing regulatory pressure are among the key drivers.

Regulatory pressure

Companies need to carry out their activities in compliance with local, national and international regulations and standards as a baseline for their sustainability agenda. This may relate to a broad set of topics, ranging from protection of environment and waste management to labour management and respect for human rights. Beyond setting minimum requirements with regard to the management of environmental and societal impacts, regulators are also increasingly focusing on how companies communicate those impacts through their ESG disclosure practices.

Similar to other countries, Macedonian companies are required to follow national laws and regulations as they relate to the management of various environmental and social issues. However, reporting on ESG issues remains voluntary. This is in contrast with the broader EU region, where several regulatory reporting requirements have emerged under the European Green Deal and the complementary Sustainable Finance Action Plan.

These include the Non-Financial Reporting Directive (NFRD) targeting large public-interest companies with more than 500 employees, the Sustainable Finance Disclosure Regulation (SFDR) applicable to financial market participants and financial advisors, as well as the Taxonomy Regulation setting forth a common classification system to identify environmentally sustainable economic activities. Together they constitute the cornerstones of the ESG reporting requirements underpinning the EU's sustainable finance strategy. **Figure 3** below illustrates how those three regulations reinforce

each other to increase availability of ESG data and strengthen the foundations for sustainable investment.

Companies should pay particular attention to the EU legislative proposal for a Corporate Sustainability Reporting Directive (CSRD), which amends the NFRD requirements currently in force. Under the proposal the EU Commission plans to:

- Extend the scope of the reporting obligations to all large companies (with more than 250 employees) and all companies (including non-EU companies) with securities listed on EU regulated markets (except listed micro-companies);¹⁶
- Introduce more detailed reporting requirements.

Companies that will voluntarily align their ESG reporting practices will thus be better prepared to compete on the international markets and attract EU and other international investors and capital providers. This can also be seen in how financial institutions are becoming more vocal on ESG matters, including how they integrate these views when voting in annual meetings, and the number of signatories to the United Nations Principles for Responsible Investment (PRI), and other international standards and reporting frameworks.

As an EU accession country, North Macedonia is expected to implement EU rules and regulations in all areas to meet the conditions for membership. Hence, the implementation of the EU legal framework around sustainability reporting and the EU Taxonomy will likely take effect in the country in the coming years. Furthermore, for Macedonian businesses with investors domiciled in the EU or with export to the EU, awareness of and compliance with EU regulations, and alignment with the EU Taxonomy is important.

For more information on the NFRD/CSRD, SFDR and the EU Taxonomy see Appendix B.

¹⁶ The European Commission defines micro companies as those with fewer than 10 employees. Source: "Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises" - http://publications.europa.eu/resource/ellar/6ca8d655-126b-4a42-ada4-e9058fa45155.0004.01/DOC_1

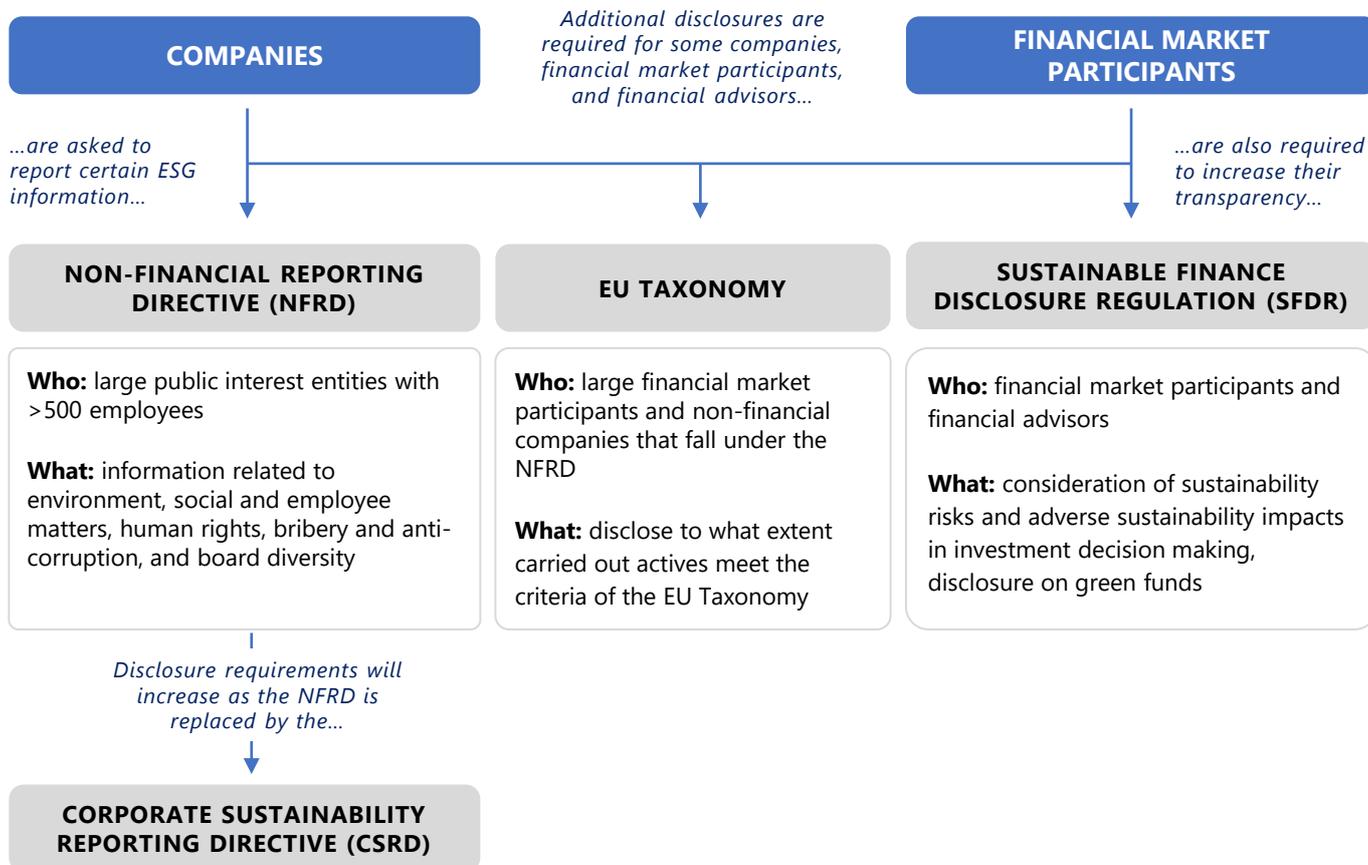


Figure 3 – EU regulatory measures imposing ESG reporting obligations

Investor demand

ESG factors are also increasingly considered by investors and other providers of financial services, reflecting a paradigm shift in awareness about the impact of material ESG issues on the long-term financial success of the company. As ESG considerations are also being integrated in the financial instruments (e.g., loans, green bonds, insurance, etc.) the financial sector is mainstreaming ESG.

One manifestation of this trend is the growth in support for the PRI – a voluntary framework that promotes the incorporation of ESG factors into investment decision making and active ownership

practices. Since the launch of the initiative in 2006, the number of signatories globally has grown to over 3,000, representing assets under management of US\$103.4 trillion.¹⁷

The size of investment products considering ESG factors has also grown dramatically. Bloomberg estimates that ESG assets may reach USD 53 trillion by 2025, constituting a third of global assets under management.¹⁸

The need for issuers to respond to this demand for ESG information is clear. By disclosing the data investors seek, issuers can provide reassurance that they are effectively managing business risks and identifying opportunities.

¹⁷ <https://www.unpri.org/annual-report-2020/how-we-work/building-our-effectiveness/enhance-our-global-footprint>

¹⁸ <https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/>

03 The basics of ESG reporting

When selecting the approach for sustainability reporting, companies should consider the needs and expectations of their stakeholders in terms of content, format and granularity of data. This chapter provides an overview of key considerations to help companies navigate this process.

3.1 Reporting formats

Companies can choose the reporting format that best suits their needs provided it meets the relevant legal requirements. The overview below presents different options companies tend to follow.

ANNUAL REPORT	SUSTAINABILITY REPORT	INTEGRATED REPORT
Focus on information material for understanding of enterprise value	Stand-alone report covering sustainability information only	Financial and sustainability information integrated in one document

Annual report

It is increasingly common that companies discuss material ESG issues within their annual reports. However, such ESG disclosures tend to be succinct to match the style and structure of the financial reporting. Additional information can be provided separately through the corporate website and/or a more comprehensive stand-alone sustainability report. Best practice stipulates that such information should be properly referenced in the annual report. Also, the MSE Corporate Governance Code refers to the annual report as the means to disclose issues related to environmental and social issues (see Section 6.7).

According to the proposal of the CSRD, which will amend the provisions of the NFRD currently in effect, companies under the scope of the directive will be required to disclose relevant ESG information as part of the management report.

Sustainability report

This approach is the most frequently used among companies internationally as it allows the company in question to present all relevant sustainability information in one dedicated document. Publishing

stand-alone sustainability reports gives companies flexibility to present ESG data in whichever way suits them best. To lend some structure and certain comparability, the Global Reporting Initiative (GRI) offers guidance for the reporting process and deliverables.¹⁹

It is best practice to publish a sustainability report and annual report at the same time to allow the users to read them together as a complete package of information. Companies should also make sure that the information reported in the stand-alone sustainability report is consistent and comparable with the annual report, i.e., that it covers the same period.

Integrated report

Integrated reporting combines financial and sustainability reporting in a single document. It shows how the company strategy and value creation model is linked to the ESG performance. For that reason, it is mostly used by companies with advanced ESG management systems. This approach has been promoted by the International Integrated Reporting Council (IIRC).

¹⁹ GRI: "How to use the GRI Standards" - <https://www.globalreporting.org/how-to-use-the-gri-standards/>

3.2 Reporting standards and frameworks

Companies are encouraged to disclose ESG information in accordance with internationally accepted reporting standards and frameworks.²⁰ Figure 4 below presents some of the most commonly used ones.

	GRI STANDARDS	IIRC FRAMEWORK	SASB STANDARDS
ORGANISATION	Global Reporting Initiative (GRI)	International Integrated Reporting Council (IIRC)	Sustainability Accounting Standards Board (SASB)
AUDIENCE	Various stakeholders	Financial stakeholders	Financial stakeholders
BEST FOR	Companies of any size, sector or location	More advanced companies that integrate ESG issues into strategic planning and decision making	More advanced companies that integrate ESG issues into strategic planning and decision making
KEY FEATURES	GRI Standards are the most widely adopted global standards for sustainability reporting. They represent an international best practice for reporting on economic, environmental, and social impacts.	Integrated Reporting <IR> Framework helps companies explain how they create value in the short, medium, and long-term both in financial and non-financial terms through integrated reporting.	SASB Standards have been designed to help companies disclose financially material sustainability information in the mainstream financial reporting. The standards are industry specific.
SCOPE	GRI Standards provide companies with guidance on reporting metrics within the following areas: <ul style="list-style-type: none"> – General disclosure – Economic – Environmental – Social 	The IR Framework focuses on six capitals essential to the value creation process: <ul style="list-style-type: none"> – Financial – Manufactured – Intellectual – Human – Social and relationship – Natural 	SASB Standards provide companies with guidance on reporting metrics within the following areas: <ul style="list-style-type: none"> – Environment – Social capital – Human capital – Business model and innovation – Leadership and governance
SECTORAL GUIDANCE	Sector-specific guidance provided	No	Yes

In June 2021, the SASB and IIRC merged into one organisation – the Value Reporting Foundation. While the organisations have now merged, the SASB Standards and IR Framework will remain separate and can be used as complementary tools.

Figure 4 - Leading international sustainability reporting frameworks and standards

²⁰ It is important to note the difference between sustainability reporting frameworks and standards. The framework provides a high-level guidance on how the report should be structured and which general topics should be included. The standards on the other hand help to make frameworks actionable by providing more detailed information on what should be reported, including specific metrics.

3.3 Reporting on climate change

Over recent years, climate change has become the number one ESG theme as it poses significant risks and opportunities for businesses, investors, economies, and societies alike. Regulations increasingly ask financial market participants to evaluate climate-related risk and opportunities and integrate them in the investment management process. The demand for meaningful climate-related corporate disclosure is following suit.

To address financial markets’ needs for increased and consistent climate reporting, the Financial Stability Board established the Task Force on Climate-Related Financial Disclosures (TCFD) in 2015. In 2017, the TCFD presented a framework to help companies disclose information on their approach for managing climate-related risks and opportunities. It focuses on four key areas: governance, strategy, risk management, as well as targets and metrics, outlined in the **Figure 5** below.

<p>GOVERNANCE</p> <p>Disclose the organisation’s governance around climate-related risks and opportunities.</p>	<ul style="list-style-type: none"> a. Describe the organisation’s governance around climate-related risks and opportunities. b. Describe management’s role in assessing and managing climate-related risks and opportunities.
<p>STRATEGY</p> <p>Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning where such information is material.</p>	<ul style="list-style-type: none"> a. Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. b. Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning. c. Describe the resilience of the organisation’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
<p>RISK MANAGEMENT</p> <p>Disclose how the organisation identifies, assesses, and manages climate-related risks.</p>	<ul style="list-style-type: none"> a. Describe the organisation’s processes for identifying and assessing climate-related risks. b. Describe the organisation’s processes for managing climate-related risks. c. Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation’s overall risk management.
<p>METRICS AND TARGETS</p> <p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</p>	<ul style="list-style-type: none"> a. Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. b. Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks. c. Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Figure 5: TCFD Recommendations²⁴

²⁴ TCFD. Recommendations of the Task Force on Climate-related Financial Disclosures. Final report (publ. June 2017). <https://www.fsb-tcf.org/recommendations/>

The TCFD is a voluntary, market-led initiative, but the EU is taking steps to encourage broader adoption. In addition, it is highly likely that the CSRD will make TCFD disclosures mandatory.²⁵ Therefore, it makes sense for issuers to proactively address the TCFD recommendations in their ESG reporting.

3.4 Reporting relevance

Regardless of the format used, the frameworks adhered to, and the extent to which climate change is covered, there are a few principles of relevance to follow that generally improve the quality of the ESG reporting.

First, what are the ESG risks? A solid understanding of the actual ESG risks is an essential starting point. The materiality matrix outlined in Annex D can indicate which ESG factors may be relevant for a particular industry. However, a thorough identification of the relevant ESG risks is always

done on a case by case basis, and the identified risks should make sense to the different exposed stakeholder groups.

Second, how do these risks impact the company? The company needs to understand why the identified risks are relevant and define how they impact the company's revenues and costs, its workforce, its reputation, its stakeholder relationships, its ability to access external financing, and its regulatory compliance.

Third, which risks are prioritised, and how? Identified ESG risks need to be prioritised and managed according to the negative or positive impact they may have on the company.

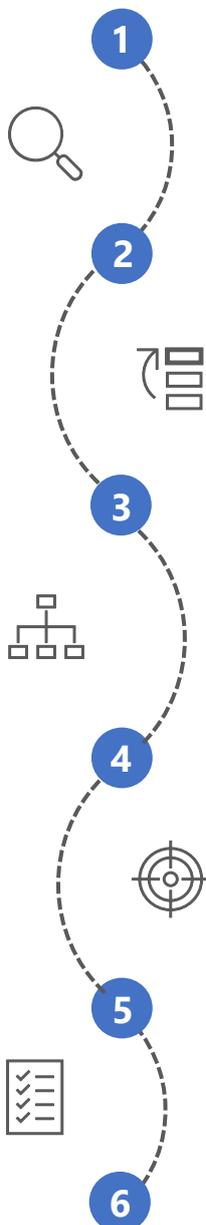
Fourth, how do you measure the risks? Measuring risks, quantitatively where possible, and ideally also setting targets or aspirational goals makes the reporting credible, and the actual ESG risk management work concrete.

²⁵ For further information, please see the European Financial Reporting Advisory Group's (EFRAG) working paper "Basis for Conclusions" on climate standards and disclosures: , please see <https://www.efrag.org/News/Project-531/EFRA---PTF-ESRS-Cluster-2-Climate-standard-prototype---Basis-for-Con?AspxAutoDetectCookieSupport=1>



04 Step-by-step approach to start your ESG reporting journey

This chapter describes a step-by-step approach companies can use to start (or enhance) their ESG reporting journey. It introduces the concept of materiality and contains practical tips and recommendations to establish a focused ESG reporting capacity. Additionally, it provides references to relevant provisions of the MSE Corporate Governance Code to help companies achieve compliance on the sustainability matters it covers.



1 IDENTIFY KEY STAKEHOLDERS AND CONSIDER THEIR INFORMATION NEEDS

Your key stakeholders are likely to be the audience of your report. Make sure to provide them with information they are looking for.

2 DEFINE THE CONTENT OF THE REPORT BASED ON A MATERIALITY ASSESSMENT

When defining the content of your report consider business model, characteristics of your sector of operations as well as stakeholder expectations.

3 DESCRIBE HOW SUSTAINABILITY IS GOVERNED WITHIN YOUR ORGANISATION

Explain how ESG issues are anchored and managed within your company, including assigned roles and responsibilities for ESG issues as well as policies, strategies and targets.

4 DESCRIBE HOW ESG RISKS ARE MANAGED IN YOUR ORGANISATION

Explain how ESG risks are integrated into your business strategy and overall risk management process and describe the process for managing and mitigating them.

5 PRESENT YOUR ACTIVITIES AND RESULTS WITHIN IDENTIFIED MATERIAL ESG AREAS

Describe undertaken activities in key ESG areas, the progress achieved as well as key performance indicators (KPIs)

6 CONSIDER INVESTORS' ESG INFORMATION NEEDS

4.1 Identify key stakeholders and consider their information needs

The company’s ability to generate value over the long term is increasingly dependent on its relationship with stakeholders. It is thus of critical importance that the company identifies its key stakeholders and establishes a process which allows for a two-way communication and engagement on a regular basis.

The company’s main stakeholders are likely to be the primary audience of its ESG reporting. By considering their views and expectations, the company will be more likely to prepare a report that fulfills their information needs, helps them to have a better understanding of the company performance, and indirectly also strengthens the company’s stakeholder relations and reputation.

Examples of stakeholders that companies may wish

to consider are illustrated in the **Figure 6** below. However, it should be noted that the list is not exhaustive. When identifying key stakeholders, a company should think of its unique business characteristics.

Companies may use different avenues to engage with key stakeholders and proactively seek their feedback. Some common examples include:

- Outreach activities with investors (i.e. investor roadshows)
- Stakeholder consultation panels
- Surveys
- Targeted interviews

The information gathered through the stakeholder engagement activities should be evaluated by the company and communicated both internally to the leadership team and externally as part of the sustainability reporting.

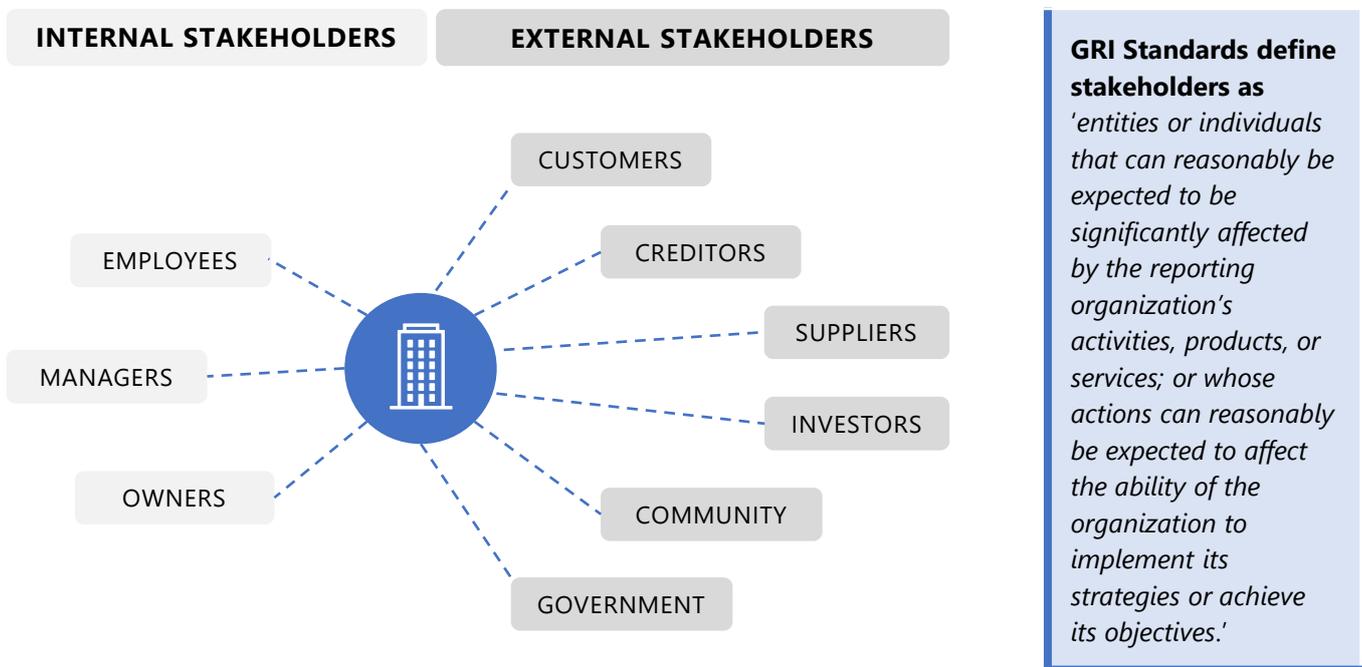


Figure 6 – Example of internal and external stakeholders

**Ensure compliance with relevant provisions of the MSE Corporate Governance Code**

SECTION: 6	Stakeholders, Sustainability and Social Issues
TOPIC:	Stakeholders
PRINCIPLES	The Supervisory and Management Boards shall take the interests of the Company's main stakeholders and the impact of its activities on them into consideration when carrying out their responsibilities.
PROVISIONS	6.1 „The Management Board shall ensure that there are effective mechanisms in place for identifying the Company's main stakeholders and understanding their views on issues of material importance to them. The Management Board shall ensure that there is a regular engagement with these stakeholders, and that the Supervisory Board is informed of the results of that engagement. A summary of the engagement that has taken place shall be published in the Annual Report.“

To examine compliance with the MSE Corporate Governance Code, ask yourself:

- Who did you identify as your key stakeholders?
- Do you have a process in place to regularly collect stakeholder feedback?
- How often do you engage with prioritised stakeholder groups?
- Is your Supervisory Board regularly updated on the results of performed engagement activities, including areas important for them and concerns voiced?
- Do you disclose information on undertaken engagement activities in your Annual Report?

4.2 Define the content of the report based on a materiality assessment

The next step is to identify which ESG issues may have material impact on the company performance.

The concept of materiality is commonly used in the context of financial accounting and disclosure. In essence, it defines which information can be considered pertinent to the investment decision-making process. However, it should be noted that the concept of materiality is evolving, and different definition exists. In 2019, the European Commission introduced a concept of double materiality, which

requires companies under the NFRD to disclose how their operations and performance can be impacted by ESG risks and opportunities (the 'outside-in' perspective) and how they impact the environment and society at large (the 'inside-out' perspective).

The materiality assessment process can help to identify which ESG issues are important for a company from a risk management and strategic decision-making perspective. It is thus a matter of those risks and opportunities that can have a relatively bigger financial or non-financial impact, in combination with how probable they are. When deciding which issues and information are deemed material, companies may consider the following:

- **Business model** and company-specific circumstances: company business strategy, goals and values as well as principal risks within its value chain are important factors to assess.
- **Sector-specific issues:** companies within the same industry are likely to face similar ESG risks and opportunities. Hence, benchmarking against peers and competitors can help to identify relevant issues.
- **Stakeholder expectations:** proactive engagement with internal and external stakeholders (including investors) can help better understand their needs and expectations.

Useful resources:

To facilitate companies’ materiality assessment Appendix D presents a simplified materiality map that indicates which issues are likely to be material for companies depending on their sector of operation.

Companies can also use the [Materiality Finder and Materiality Map®](#) developed by the Sustainability Accounting Standards Board for more information on how to determine materiality.

To examine compliance with the MSE Corporate Governance Code, ask yourself:

- What ESG issues are material for your business given the ESG risks inherent to your sector of operations?
- Did you identify other areas that can be material due to your business model, value chain or other company-specific circumstances?

4.3 Describe how sustainability is governed within your organisation

Providing a clear overview of how ESG issues are embedded and managed within an organisation is a cornerstone of effective sustainability communication. A description of overarching

sustainability frameworks, assigned roles and responsibilities and adopted sustainability policies is essential for stakeholders to gauge a company’s preparedness to respond to sustainability challenges and opportunities.



Overarching sustainability strategy and targets

Integrating sustainability considerations into overall business strategy and planning helps to show what are the main priorities for the organisation and which direction it is heading.

A sustainability strategy outlines the company's sustainability ambitions along with the actions and deadlines for achieving them. It should clearly indicate which areas have been given a strategic priority and why, what actions the company is taking to manage them, and how the progress will be measured.

Relevant policies and action plans

The sustainability strategy should be bolstered by specific policies and action plans for their implementation.

The MSE Corporate Governance Code encourage companies to adopt and disclose internal policies related to environmental and social issues (Section 6.3 of the Code). A Sustainability Policy or Environmental Policy are examples of a policies that tackle a broad spectrum of sustainability (both social and environmental) or environmental issues (i.e. company approach to managing its impacts on environment in areas such as emissions, water use, waste management or biodiversity), respectively. However, companies may wish to adopt also more focused policies that relate to specific aspects material to their business. A Human Rights Policy or Health and Safety Policy are examples of such policies.

Furthermore, companies are also urged to adopt Code of Ethics (Section 3.2 of the Code) that outlines the standards of ethics and responsible business

conduct that they commit to and provides guidelines of behaviour for employees (and third parties).

For further guidance on policy-related disclosures, please refer also to Appendix A.

Roles and responsibilities

ESG management is part of the long-term value creation process of an organisation, the subject is part of the boardroom responsibilities. The MSE Corporate Governance Code acknowledges this by stating that the Supervisory and Management Boards shall take into consideration the interests of the company's main stakeholders and the impact of its activities on them when carrying out their responsibilities.

Assigning roles and responsibilities for sustainability matters is paramount for effective implementation of sustainability-related policies, strategies and goals and for the management of the sustainability reporting process. It also helps to increase accountability and can serve as a yardstick by which leadership commitment to sustainability is measured.

To ensure that implementation of the vision and policies is executed effectively, a company may appoint a specific person with relevant ESG experience or establish a dedicated sustainability department in charge of monitoring, managing and reporting on sustainability matters. Additionally, a board-level oversight of ESG issues (either by entire board or specific committees) is essential to further reinforce the company commitment to sustainability.

**Ensure compliance with relevant provisions of the MSE Corporate Governance Code**

SECTION: 6	Stakeholders, Sustainability and Social Issues
TOPIC:	Sustainability and Social Issues
PRINCIPLES	The Supervisory and Management Boards shall cultivate a corporate culture that encourages a responsible attitude towards the environment and social issues; approve a strategy to promote sustainability; and ensure that its business model and risk management systems take account of the potential environmental and social impact of its activities.
PROVISIONS	6.3 „The Company shall have internal acts relating to its responsibilities for environmental and social issues and policies and procedures that enable it to identify material factors and assess the impact on the company’s activities. These policies shall be reviewed at least annually by the Supervisory and Management Boards and shall be published on the company’s website.“

To examine compliance with the MSE Corporate Governance Code, ask yourself:

- Has the Board defined specifically how interests of the company's main stakeholders and the impact of its activities are taken into consideration when carrying out their responsibilities?
- Do you have a system in place to identify, monitor and manage your sustainability targets and impacts?
- Do you have policies outlining your commitment to managing key ESG impacts and processes for their implementation?
- Are the policies communicated both internally and externally on the company website?
- Does your Board regularly review sustainability policies and the progress on their implementation?

4.4 Describe how ESG risks are managed in your organisation

Embedding ESG risks into overall risk management processes helps to further anchor sustainability in the company's operations and strategic decision-making. It is important to consider direct risks within own operations as well as indirect risks in the supply chain as both can have material implication for the company's long-term value creation potential.

Companies may note that the number of material

ESG risks may differ depending on their sector of operation. Some sectors are exposed to a larger number of ESG risks than others. For example, a company active in the extractive sector might need to consider a much broader range of issues than a technology company.

Effective integration of ESG risks requires that the company:

- Identify key ESG risks (including what types of risks are considered the most relevant, their likelihood, time horizon and potential impact).

- Establish a process to monitor, manage and mitigate identified ESG risks.
- Establish a process for reporting concerns. Notably by ensuring that there is a system in place for reporting suspected or actual violations of rules or misconduct (so called whistle-blowing procedure).

Section 5.8 of the MSE Corporate Governance Code requires companies to ensure that such mechanism is in place. See also Appendix A for more details on what should be disclosed in that respect.



Ensure compliance with relevant provisions of the MSE Corporate Governance Code

SECTION: 6	Stakeholders, Sustainability and Social Issues
TOPIC:	Sustainability and Social Issues
PRINCIPLES	The Supervisory and Management Boards shall cultivate a corporate culture that encourages a responsible attitude towards the environment and social issues; approve a strategy to promote sustainability; and ensure that its business model and risk management systems take account of the potential environmental and social impact of its activities.
PROVISIONS	6.6 „The Company’s risk management system shall include processes to identify and manage risks arising from environmental and social issues. The effectiveness of these processes shall be reviewed at least annually.”

To examine compliance with the MSE Corporate Governance Code, ask yourself:

- Do you provide relevant information on material ESG issues? (Please refer to Annex A for details on recommended disclosures).
- Does your ESG report follow internationally recognized sustainability reporting framework or standard, such as GRI?
- Have you verified reported ESG information externally?

4.5 Present your activities and results within identified material ESG areas

Finally, the company should present how it is managing its key ESG issues. ESG reporting should be a reflection of that process, not a goal in itself. It should illustrate what actions the company has

undertaken within the prioritised ESG areas and how it has performed against its targets/objectives. Providing relevant quantitative metrics along with the qualitative narrative helps to illustrate progress and provide additional context to the presented data. Appendix A includes recommended minimum disclosures and KPIs that companies should consider as part of their reporting process.



Ensure compliance with relevant provisions of the MSE Corporate Governance Code

SECTION: 6	Stakeholders, Sustainability and Social Issues
TOPIC:	Sustainability and Social Issues
PRINCIPLES	The Supervisory and Management Boards shall cultivate a corporate culture that encourages a responsible attitude towards the environment and social issues; approve a strategy to promote sustainability; and ensure that its business model and risk management systems take account of the potential environmental and social impact of its activities.
PROVISIONS	6.7 "In the Annual Report, the Company shall report on issues related to environmental and social issues based on the principle of transparency and in accordance with relevant legal requirements and good international practices."

To examine compliance with the MSE Corporate Governance Code, ask yourself:

- Are ESG risks discussed regularly at the company board meetings?
- Does the company consider ESG risks as part of the overall company risk management?
- Are ESG risks integrated into the company business model and corporate strategy?
- Has the company established a whistle-blower procedure for reporting actual or suspected breaches of law and the company internal rules and policies?

4.6 Take into consideration investors' needs

As ESG disclosures are increasingly demanded by analysts and capital markets participants, it is important for issuers to respond to these information needs accordingly. Key characteristics of decision useful ESG disclosures include:

MATERIAL

Materiality is perhaps the single most important factor to consider when preparing ESG disclosures. Applying a rigorous materiality process helps identify relevant ESG issues and prioritise them according to the likelihood and magnitude of their potential impact on company operations.

OBJECTIVE

Disclosures should be objective and balanced, including both positive and negative developments. Any misstatements or omissions of material information should be avoided. Companies should explain the scope and boundaries of the reported information, especially when certain information pertains only to some (but not all) of its activities or subsidiaries.

STRATEGIC AND FORWARD-LOOKING

Generic, "boiler-plate" disclosure is of limited use to investors and analysts. Disclosure on material ESG issues should be aligned with strategic information necessary for investment decision-making, such as description of relevant risks and opportunities as well as a process for managing them.

CLEAR AND CONCISE

ESG reporting should be presented in a clear and concise manner. It should cover a specific period, usually a given reporting year. Reporting excessive or irrelevant information can lead to confusion and may obscure key messages.

COMPARABLE AND RELIABLE

Prioritising quantitative data facilitates peer comparison by investors and analysts. Reported KPIs should be linked to the company business strategy and present the company's performance in key ESG areas. A narrative description providing additional context is also important and helps explain the numbers and how the company is progressing.

VERIFIABLE

External assurance of reported data helps to increase its credibility, allowing for more effective integration by investors.

The importance of getting started

As with many other matters on the corporate agenda, sustainability strategy formulation and ESG reporting is a process of continuous improvement. Issuers may feel it is a daunting challenge to begin reporting on ESG matters. However, any ESG disclosure, no matter how limited, is better than no disclosure at all. As sustainability gathers momentum, stakeholders become increasingly vocal and demanding, and the regulatory pressures mount. It is better to start

early, take inspiration from best practice, and initiate the ESG reporting process in earnest. In paragraph 3.2 various reporting frameworks and their specific benefits have been described. Based on a company's characteristics, ambition level and size, the most appropriate framework can be identified. This framework will provide inspiration and practical help to grow your ESG reporting practices.





Appendices

Appendix A - Recommended minimum disclosures and KPIs

The following recommendations and KPIs constitute the minimum disclosures that should be considered by issuers to facilitate their communication with investors and other stakeholders. They are organised into four subject areas: Corporate Governance, Business Ethics Standards, Social Issues and Environmental Issues. For specific recommendations in relation to Corporate Governance, companies should refer to the Corporate Governance Code for Companies Listed on the Macedonian Stock Exchange. For the remaining three areas a set of basic qualitative and quantitative metrics have been provided. Those metrics are based on existing international sustainability reporting standards and frameworks.

It is important to note that the Guidelines do not provide a comprehensive list of metrics and disclosure topics. Companies are thus encouraged to go beyond the recommended minimum disclosures and identify and disclose additional ESG issues and KPIs considered material given their company specific circumstances and sector of operations. To facilitate consistency and comparability of reported information, companies are encouraged to use international ESG reporting frameworks and sector-specific guidelines.

A simplified materiality map provided in Appendix D can help to identify additional ESG topics. For further guidance companies may also refer to [Materiality Finder and Materiality Map®](#) developed by the SASB.

CORPORATE GOVERNANCE

Corporate governance is a system of controls and procedures by which an organisation is operated. A company with strong corporate governance structures is defined by professional management, a well-structured board, and organised systems and processes. These in turn reduce and mitigate risks, and ensure decisions are aligned with the company's and the shareholders' interests.

Companies should refer to the Corporate Governance Code for Companies Listed on the Macedonian Stock Exchange for details on recommended actions and disclosure requirements on corporate governance issues, as they relate to:

- Shareholder rights and relations (Section 1)
- The supervisory board (Section 2)
- The management board (Section 3)
- Conflicts of interest (Section 4)
- Risks and control (Section 5)
- Stakeholders' sustainability and social issues (Section 6)
- Transparency and disclosure (Section 7)

For additional guidance with respect to the Section 6 – Stakeholder's sustainability and social issues, please refer to the Chapter 4 of the Guidelines.

BUSINESS ETHICS STANDARDS

Business ethics standards refer to organisational principles that serve as a framework for the responsible management of any organisation. They define the extent to which a company conducts business ethically, and in line with applicable laws and accepted norms. It is a critical component of long-term value creation.

CODE OF ETHICS

Code of Ethics (also called code of conduct) is a formal document outlining standards of ethical business conduct to which the company commits itself. It clarifies the company's values and principles and provides guidelines of behaviour for employees (and third parties). The Code should be communicated internally and externally.

What should be disclosed:

- Whether the company has adopted a Code of Ethics, and what steps has been taken to ensure compliance.

ANTI-CORRUPTION POLICY

Anti-corruption policy is a formal document outlining the company's position on bribery and corruption. It can be a stand-alone document or be a part of a wider set of company standards of conduct such as a Code of Ethics. The policy should be communicated internally and externally.

What should be disclosed:

- Whether the company has an anti-corruption policy that extends to suppliers and business partners, and what steps has been taken to ensure compliance.

It is recommended that the policy:

- Outlines the company position regarding bribery and corruption, conflict of interest and facilitation payments.
- Defines what is understood by each of the terms above.
- Provides a clear explanation and examples of what is acceptable and non-acceptable behaviour.

WHISTLE-BLOWER PROCEDURE

A whistle-blower procedure (also called a grievance mechanism) is a system that enables reporting of suspected or actual breaches of law, violations of rules or other misconduct. It can be internally operated by a company (e.g., a dedicated email address) or managed by an independent third-party.

What should be disclosed?

- whether 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.

It is recommended that the whistle-blower procedure:

- allows reporting of violations anonymously and without a fear of retaliation;
- is available to suppliers and third parties;
- is communicated to employees internally, and externally on the company's website.

SOCIAL ISSUES

Social disclosures relate to the rights, well-being and interests of people and communities. As a minimum it is recommended that the companies report on the issues outlined below.

WORKFORCE COMPOSITION**What should be disclosed:**

- Workforce composition by gender, employment type (e.g., full- or part-time), age group and geography.

EMPLOYEE TURNOVER

Employee turnover measures the proportion of employees that have left an organisation (either voluntary or as a result of employer choosing to end a contract with an employee) during the reporting year.

What should be disclosed:

- Turnover rate (in %)

The turnover rate is calculated by dividing the number of employees that left the company during the reporting year by the average number of employees within the year.

High turnover may signal employee dissatisfaction with the work environment, compensation or workplace health or safety conditions.

LABOUR STANDARDS

Labour standards are a set of basic principles and norms that companies should respect at the workplace.

What should be disclosed?

- Measures taken by the company to support workers' right to exercise freedom of association and collective bargaining (both in its own operations and in the supply chain).
- Whether the company assess exposure (both in its own operations and in the supply chain) to human rights risks, including child labour and forced labour.
- Which operations/suppliers are considered to have high exposure to human rights incidents and what actions have been taken to mitigate them (for example incorporation of human rights provisions into procurement contracts, audit and monitoring of suppliers' operations, etc.).

- which operations/suppliers are considered to have high exposure to human rights incidents and what actions have been taken to mitigate them (for example incorporation of human rights provisions into procurement contracts, audit and monitoring of suppliers' operations, etc.)

HUMAN RIGHTS POLICY

Human rights policy is a formal document outlining the company's position on human rights. It can have a stand-alone format or be integrated into a wider set of company standards such as a Code of Ethics or Supplier Code of Conduct.

What should be disclosed?

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

It is recommended that the policy:

- Refers to internationally recognised human rights standards the company commits to respect (i.e. International Bill of Human Rights and ILO's Declaration on Fundamental Principles and Rights at Work).
- Sets out the company's expectations of its employees.
- Sets out the company's expectations of its suppliers and business partners.
- Describes a process for its implementation.
- Is communicated internally and externally.

For further guidance please refer to United Nations Global Compact, [Guide on How to Develop a Human Rights Policy](#).

ENVIRONMENTAL ISSUES

Environmental disclosures relate to issues that arise from, or impact the natural environment. They cover topics such as climate change mitigation and adaptation, use of natural resources, and impacts on the environment. As exposure to environmental issues may differ between the companies some disclosure recommendations outlined below may not be applicable to all issuers.

GHG EMISSIONS

GHG emissions are understood as total direct and indirect emissions. They can be further categorised into Scope 1, Scope 2 and Scope 3 emissions as follows:

- **Scope 1 Emissions:** direct emissions from owned or controlled sources, including: stationary combustion (fuels and heating sources), mobile combustion (vehicles), fugitive emissions (resulting from refrigeration or air conditioning leakages), and process emissions from industrial processes.

- **Scope 2 Emissions:** indirect emissions from purchased or acquired electricity, heat or steam.
- **Scope 3 Emissions:** other indirect emissions that occur in the value chain of reporting company both “upstream” and “downstream” of its operations.

What should be disclosed?

- Methods and assumptions used for calculation of the emissions.
- Scope 1, Scope 2 and Scope 3 (if relevant) GHG emissions for the last three reporting years to facilitate performance assessment over time.
- Explanation of significant changes in performance (whether negative or positive).

It is recommended to use internationally recognised standard for the corporate accounting and reporting of GHG emissions such as the GHG Protocol or the ISO 14064-1:2018 standard.

ENERGY CONSUMPTION

Energy consumption is the total amount of energy consumed within an organisation. It comprises purchased and self-generated energy sources.

What should be disclosed:

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

CLIMATE CHANGE (if relevant)

Employee Investors are increasingly interested whether their investee companies align their business strategies and investment plans with the requirements of the Paris Agreement and evaluate potential impact of climate risks on their operations. Issuers should thus consider providing more information on the actions taken to manage and mitigate their climate change risks.

It is recommended that companies with significant exposure to climate change (i.e., those with carbon-intensive operations) strive to fully implement (or provide a roadmap with timeline for implementation) TCFD recommendations, as they relate to:

- Governance
- Strategy
- Risks management, and
- Metrics and targets

For further details please refer to the [TCFD website](#) and [TCFD Knowledge Hub](#). Good practice examples can be also found in the [TCFD Good Practice Handbook](#).

WATER CONSUMPTION (if relevant)

What should be disclosed:

- Total amount of water consumed within the organisation (in m3).
- (for companies with water-intensive operations): activities to reduce water use, increase water circularity (through water reuse and recycling) and preserve water resources.

OTHER ENVIRONMENTAL IMPACTS (if relevant)

What should be disclosed?

- Does the company operation have other significant impact on the environment and natural resources (for example impact on biodiversity)?



Appendix B - Main international reporting standards and frameworks

	NAME	DESCRIPTION
REPORTING STANDARDS AND FRAMEWORKS	GRI	The Global Reporting Initiative offers sustainability reporting standards that allows companies and other organisations to communicate their impact on the economy, environment and the society. It is designed to serve the information needs of a broad range of stakeholders, including investors.
	IIRC	The International Integrated Reporting Council offers a principles-based framework that helps organisation explains how they create financial and non-financial value through integrated reporting. It focuses on six capitals essential to the value-creation process: financial, manufactured, intellectual, human, social and relationship, and natural.
	SASB	The Sustainability Accounting Standards Board develops sustainability accounting standards to facilitate disclosure of material and decision-useful sustainability information by the companies. The standards and corresponding indicators are developed taking into account sector-specific risks.
	TCFD	The Task Force on Climate-related Financial Disclosures is a principles-based framework aimed at helping companies to disclose information of their approach for managing climate-related risks and opportunities. It covers four areas: governance, strategy, risk management, and metrics and targets.
	CDP	CDP (formerly the Carbon Disclosure Project) helps companies disclose information on their environmental impacts through standardized questionnaires. Topics covered include climate change, water management and deforestation. The information provided by the respondents are then scored by the CDP to help drive environmental leadership.
	CDSB	The Climate Disclosure Standards Board Framework sets out an approach for reporting environmental and climate change information in mainstream reports, such as annual reports or integrated report.
REPORTING-RELATED INITIATIVES	UNGC	UN Global Compact requires signatory companies to report on ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption
	SDGs	The Sustainable Development Goals are a set of 17 goals adopted by UN member states in 2015, as part of the 2030 Agenda for Sustainable Development.

Appendix C - EU regulations

As an EU accession country, North Macedonia is expected to implement EU rules and regulations in all areas in order to meet the conditions for membership. Hence, the implementation of the EU legal framework around sustainability reporting and the EU Taxonomy will likely take effect in the country in the coming years. Furthermore, for Macedonian businesses with investors domiciled in the EU or with export to the EU, awareness of and compliance with EU regulations, and alignment with the EU Taxonomy is an important consideration.

THE EUROPEAN GREEN DEAL	FINANCING SUSTAINABLE GROWTH ACTION PLAN	
<p>NFRD (Directive 2014/95/EU) <u>Who:</u> Large companies with more than 500 employees. <u>What:</u> Disclosure should cover relevant policies, main risks (incl. due diligence processes) KPI, and the company business model. The disclosure requirements will strengthen as NFRD is replaced by CSRD. <u>When:</u> NFRD (came into effect in 2018 following transposition into national laws); CSRD (legislative proposal adopted in April 2021).</p>	<p>EU Taxonomy (Regulation (EU) 2020/852) <u>Who:</u> Large financial market participants and non-financial companies under the scope of NFRD. <u>What:</u> The EU Taxonomy is a classification system used to define “environmentally sustainable” business activities six environmental objectives. Disclosure should indicate to what extent carried out activities meet the criteria of the EU Taxonomy. <u>When:</u> July 2020</p>	<p>SFDR (Regulation (EU) 2019/2088) <u>Who:</u> Financial market participants and financial advisers. <u>What:</u> Disclosure should cover integration of sustainability risks in investment decision-making process, principal adverse impacts, as well as additional disclosure on green funds. <u>When:</u> March 2021</p>
<p>Additional guidelines:</p> <ul style="list-style-type: none"> – Non-binding Guidelines on non-financial reporting (2017) – Non-binding Guidelines on reporting climate-related information (2019) integrating TCFD recommendations 	<p>Delegated Acts will define Technical Screening Criteria (TSC) to facilitate practical implementation.</p> <ul style="list-style-type: none"> – TCS for climate mitigation and adaptation (April 2021) – TSC for the remaining objectives (to be published in 2022) 	<p>Regulatory Technical Standards (RTS) provide further clarity for companies with respect to their sustainability disclosures:</p> <ul style="list-style-type: none"> – Legally binding with the SFDR Regulation – Metrics, templates and methodologies
<p>Covered topics:</p> <ul style="list-style-type: none"> – Environmental matters – Social & employee matters – Respect for human rights – Anti-corruption and bribery – Board diversity 	<p>Covered topics:</p> <ul style="list-style-type: none"> – Climate change mitigation & adaptation – Use & protection of water and marine resources – Transition to a circular economy – Pollution prevention & control – Protection & restoration of biodiversity & ecosystems 	<p>Covered topics:</p> <ul style="list-style-type: none"> – Sustainability risks – Principal adverse impacts as they relate to: climate, environment, social and employment issues, human rights, anti-corruption & bribery – Green assets

Appendix D - Simplified materiality map

Please note that this mapping is for reference only, and it is based on the SASB resources. For additional guidance on ESG materiality across a large number of sectors and sub-sectors, please see the sectoral materiality guidance provided by SASB.

		Agriculture	Construction	Consumer Discretionary	Consumer Staples	Extractives	Financials (incl. banks)	Healthcare	Industrials	IT and communication	Trade and Services	Utilities
Environment	GHG Emissions	● ●	● ●	●	● ●	● ●	● ●	●	●	●	●	● ●
	Climate change	● ●	● ●	●	●	● ●	● ●	●	●	●	●	● ●
	Use of natural resources	● ●		●	●	● ●			● ●		●	● ●
	Energy efficiency	● ●	●	●	●	●	●	●	● ●	● ●	● ●	●
	Water management	● ●		●	●	● ●			●	●	●	● ●
	Pollution and waste	● ●	● ●	●	●	●		●	●	●		
	Environmental impacts				● ●	● ●	●		● ●			● ●
Social	Working conditions	(Relevant across all sectors)										
	Training and development					●	●	●		● ●		
	Gender diversity	(Relevant across all sectors)										
	Health and safety	● ●	● ●		● ●	● ●		● ●	● ●			● ●
	Human rights			● ●	●	● ●	●	●	● ●	●	●	●
	Product safety	● ●	● ●	● ●	● ●		●	● ●	●	●	●	●
	Supply chain management	● ●	●	●	● ●	●		●	●	●	●	
Governance	Business ethics	(Relevant across all sectors)										
	Anti-corruption		●	●	● ●	● ●	● ●	● ●	● ●	●	●	●
	Corporate Governance	(Relevant across all sectors)										
	Data security and privacy						● ●	● ●		● ●		

- ● Likely to be material in most industry sub-sectors
- Likely to be material in a limited number of industry sub-sectors

Project execution

The project team included: Magdalena Krzysztofik, Niclas Düring, Sybren Fennema and Wouter Scheepens.

Steward Redqueen is an independent consultancy that works across the globe advising organisations on impact and sustainability (ESG). Its mission is to make business work for society. Key areas of work include integrating sustainability, private sector development, quantifying impact and facilitating change. The company's offices are in Amsterdam (the Netherlands), Singapore and Washington DC (as per May 2021). The company is also represented in Spain, Sweden and Poland. Clients of Steward Redqueen include multinational corporations, (development) financial institutions and non-profit organisations across the globe.

For more information: www.stewardredqueen.com

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