

ESG PRACTICE IN CEE COUNTRIES

RESEARCH STUDY 2024



What is ESG?



ESG (*environmental (E), social (S), and governance (G)*) is a tool to measure and present sustainability matters to the stakeholders of an entity.

Investors and financial analysts are increasingly including ESG aspects into their valuation model in response to the global environmental and social challenges that the world is facing.

ESG is also becoming a common regulatory principle.

ENVIRONMENT

Preserving the environment,
influence on biodiversity
and circular economy,
climate change mitigation, adaptation,
use of primary raw materials and water resources,
emissions of greenhouse gases throughout
the whole life cycle of a product
waste management,
energy effectiveness,
sustainable
procedures etc.

Health and safety,
education
consumer protection,
human rights,
diversity,
equal opportunities,
workers' rights,
impact on local communities,
corporate social responsibility (CSR).

SOCIAL

Organizational
decision-making
process,
transparency,
ethical behaviour,
anti-corruption policies,
employee involvement,
employee relations,
management and employee benefits,
from and makeup of the board of
directors and management.

GOVERNANCE



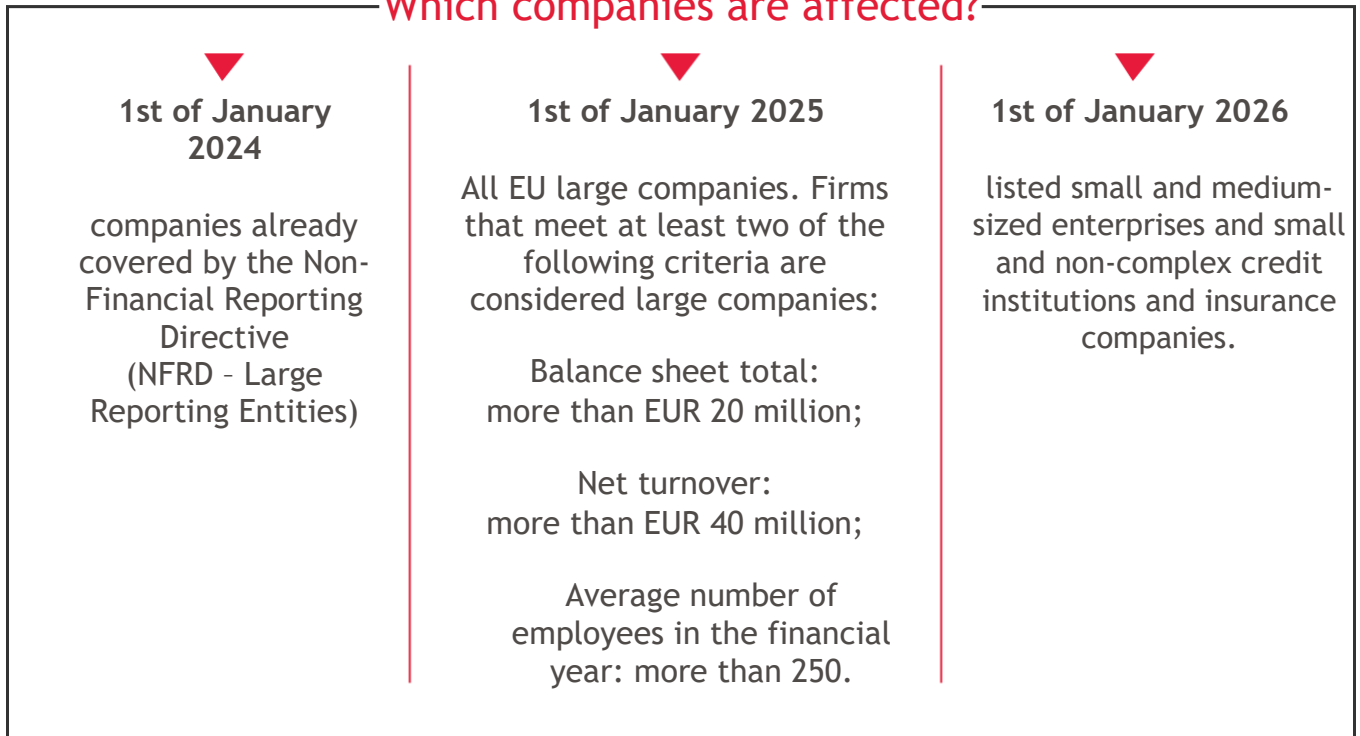
Corporate Sustainability Reporting Directive (CSRD)



In 2022 the CSRD (Corporate Sustainability Reporting Directive) was adopted in the European Union.

This directive ensures that companies disclose adequate information about their sustainability risks and opportunities and their impact on people and the environment, based on a dual materiality principle.

Which companies are affected?



12 ESRS standards describe what to report





Goal:

assess and overview the knowledge and initiatives of BDO clients in the Central-Eastern European (CEE) region on sustainability

Contributing BDO firms (CEE+):

BDO Croatia
BDO Czech Republic
BDO Hungary
BDO Latvia
BDO Lithuania
BDO Poland
BDO Romania
BDO Slovakia
BDO Slovenia

Project coordinator:

BDO Hungary



Main findings of the survey

- 83% of companies answered that ESG will be extremely or very important in the future for their business operation.
- Meeting regulatory requirements, enhancing reputation and ownership expectations are the TOP motivating factors for companies to focus on ESG.
- More than 40% of companies would like to spend more on sustainability than in the previous year.
- ESG factors integrated into the companies' operation:
E: Waste management, alternative energy use, energy efficiency and water use.
S: Health and safety, workers' well-being, education and training of employees.
G: Ethical behaviour and transparency.
- Only 20% of responding CEE+ companies have prepared ESG reports, nearly 40% are planning to prepare their first ESG report in 2024.
- 50% of companies that do not report on sustainability are not aware of ESRS, of which 34% would be legally required to do so.
- Businesses are generally still at an early stage of their sustainability journey, focusing mostly on regulatory compliance.

Gathering information is crucial as companies are not yet fully aware about their legal obligations.



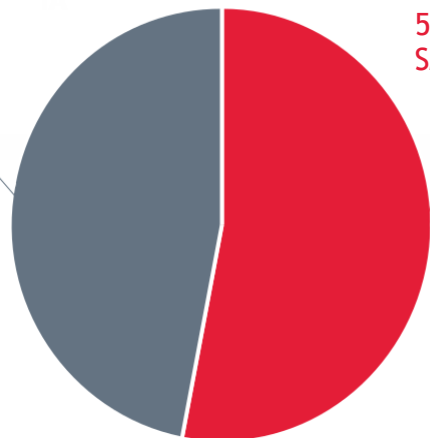
About the research

40 questions on the following topics:

- Motivation of companies
- Companies' investments in sustainability
- Green and sustainable finance
- ESG reporting
- ESG regulation
- ESG maturity

47%
Large
enterprise

53%
SMEs



- ▶ 9 participating countries
- ▶ Reached more than 5500 BDO clients
- ▶ Most responses were received from clients in:
 - Manufacturing
 - Wholesale and retail trade
 - Water supply; sewerage, waste management and remediation activities

Factors that are most motivating companies to start integrating ESG considerations into their decision-making processes and reporting:

1. Regulatory requirements (46%)
2. Enhancing reputation(44%)
3. Ownership expectations (41%)
4. Positive link between ESG and financial performance (31%)
5. Costumer/ client demand (27%)
6. Funding programmes/ EU subsidies (21%)
7. Risks and opportunities identified in ESG reporting (17%)
8. Inspiring other companies (16%)
9. **Financial partner expectation (bank) (14%)**

In the last 12 months, 32% of companies surveyed were asked by stakeholders for sustainability/ESG data or figures

"Expectation of a financial partner (bank)" ranks last in terms of motivation, but most requests for sustainability/ ESG data or figures came from banks and investors in the past 12 months.

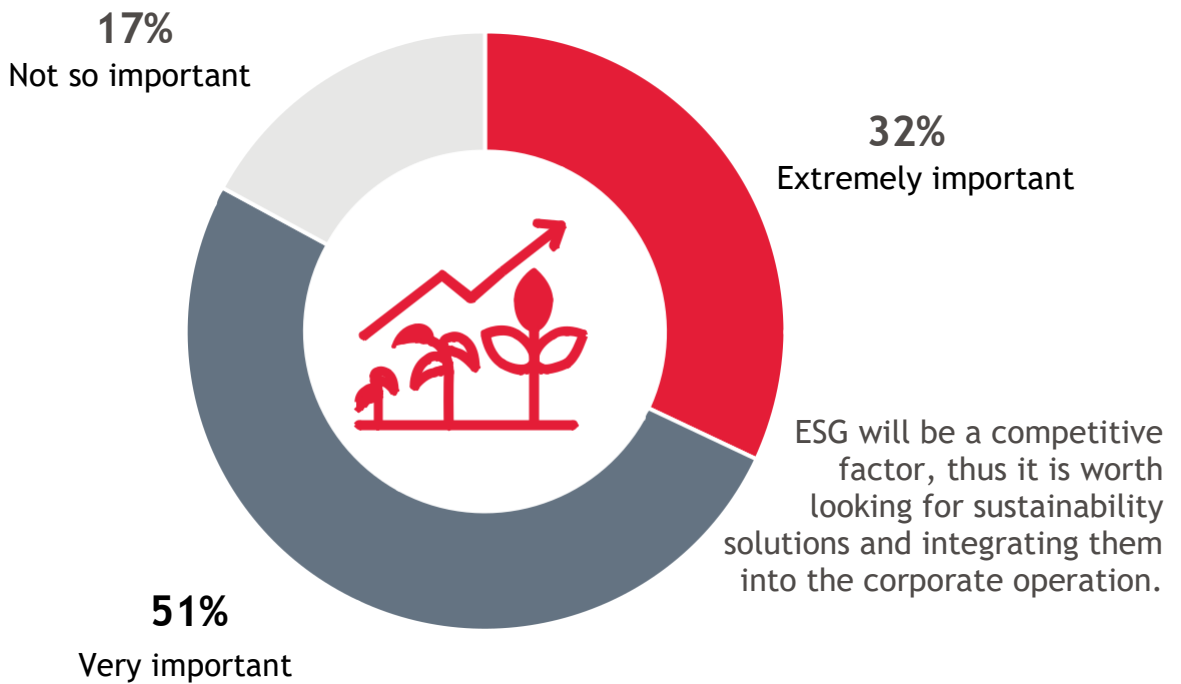
Companies must pay more attention to ESG aspects, in particular, to meet the expectations of financial partners and banks.



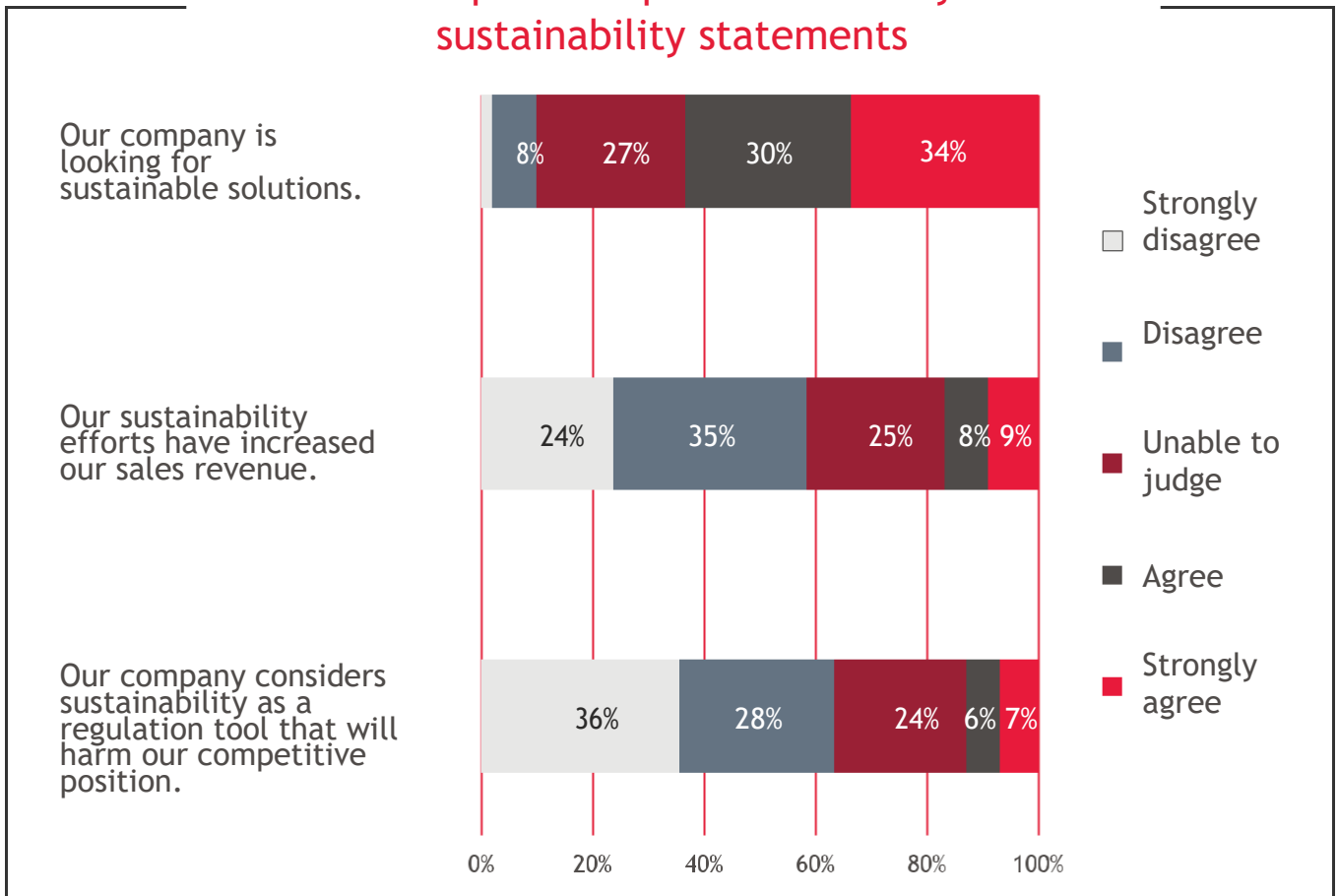
83% of companies think ESG will be important



Importance of ESG in the future for the companies' operation



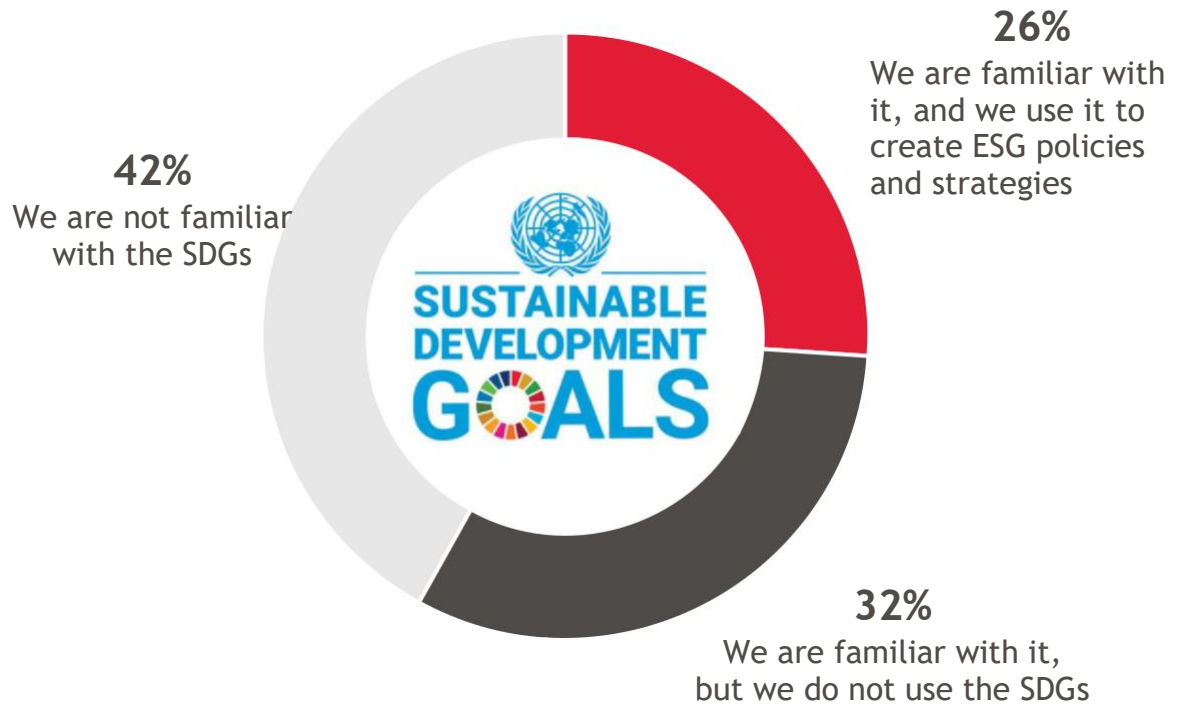
Companies' opinion about key sustainability statements



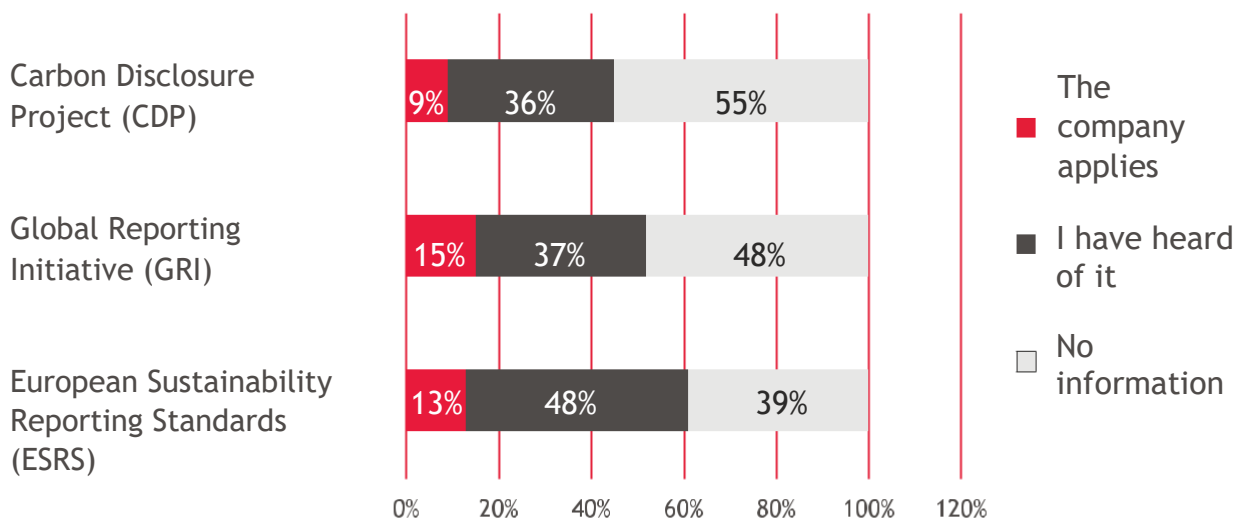
More education is needed on sustainability regulations and standards



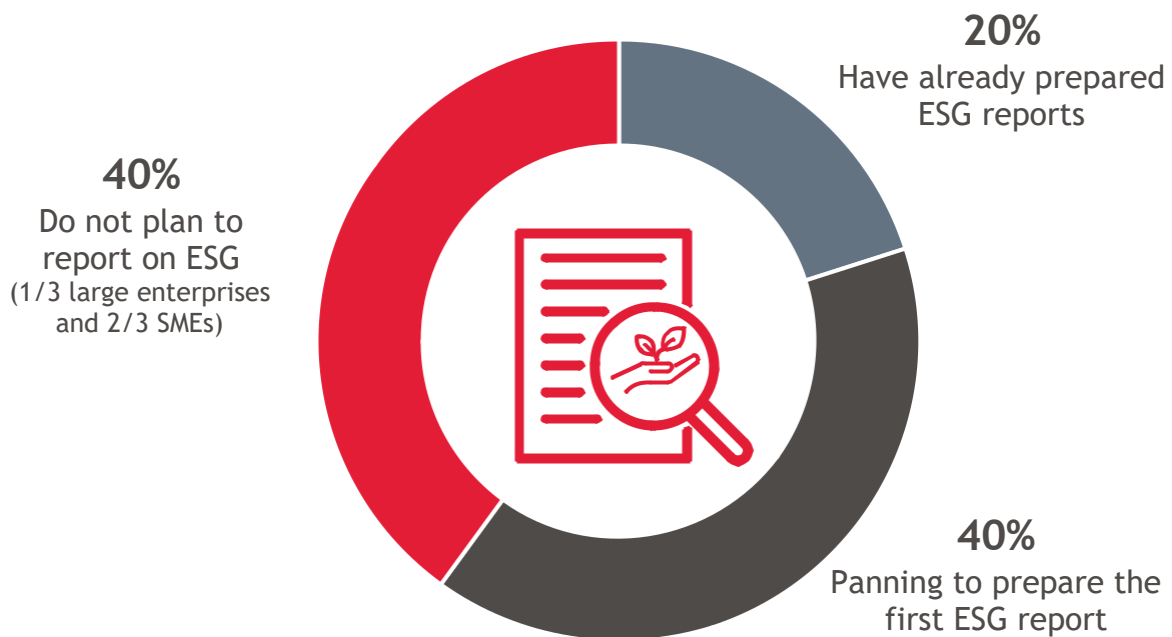
How familiar is your company with the basic concept of the UN Sustainable Development Goals (SDGs)?



Metric systems known or used by companies in the CEE+ region



Lot of newcomers to prepare their first ESG report in 2024



Obstacles of reporting

The integration of ESG criteria into the decision-making process and reporting is still not widespread among companies for several reasons. The research has revealed that companies may have difficulties with integrating and applying ESG aspects in their operations.

1. Lack of capacity
2. Lack of information about reporting and
3. Complex and time-consuming methodologies



ENVIRONMENTAL

1. Waste management
2. Alternative energy use and energy efficiency
3. Water use

Just 17% of SMEs indicate that they are highly or extremely highly focused on carbon emissions and carbon neutrality compared to 50% of large enterprises.



SOCIAL

1. Health and safety
2. Employee welfare
3. Education and training of employees

SMEs ranked employee well-being 8% more vital, education and training 15% more important, and human rights in the value chain 15% more important than large organisations.



GOVERNANCE

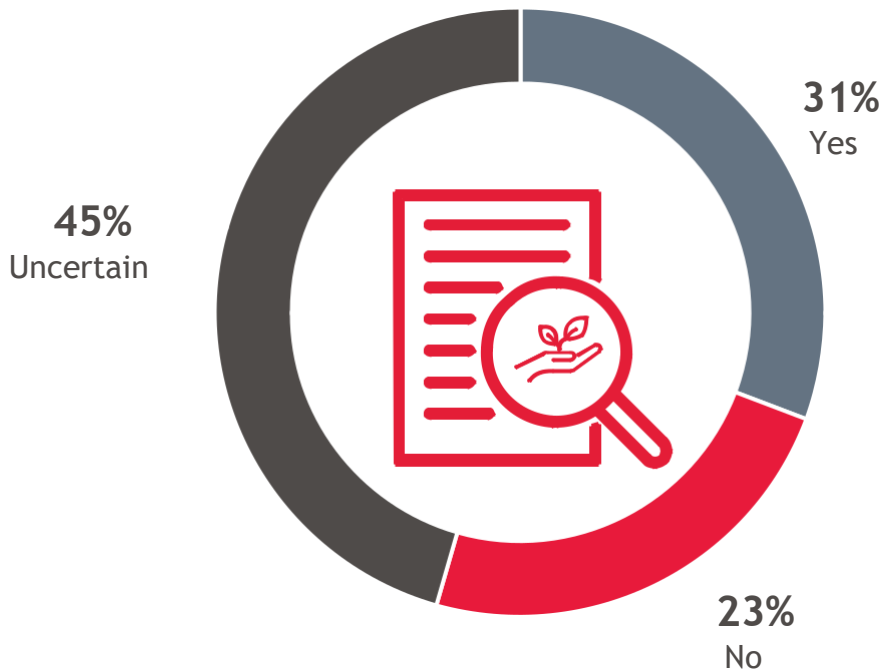
1. Ethical behavior
2. Transparency
3. Sustainable supply chain

Large companies put more emphasis on ethical behaviour and transparency.

Companies preparing for CSRD lack information on the regulatory obligations



Will your company be legally required to report according to the CSRD?



43%

Companies obliged
On the basis of data

net revenue; total assets; number of employees

31%

Companies obliged
based on responses

40%

Have not heard about ESRS



1/3 of them will be
required by law to
report under CSRD

Challenges of CSRD

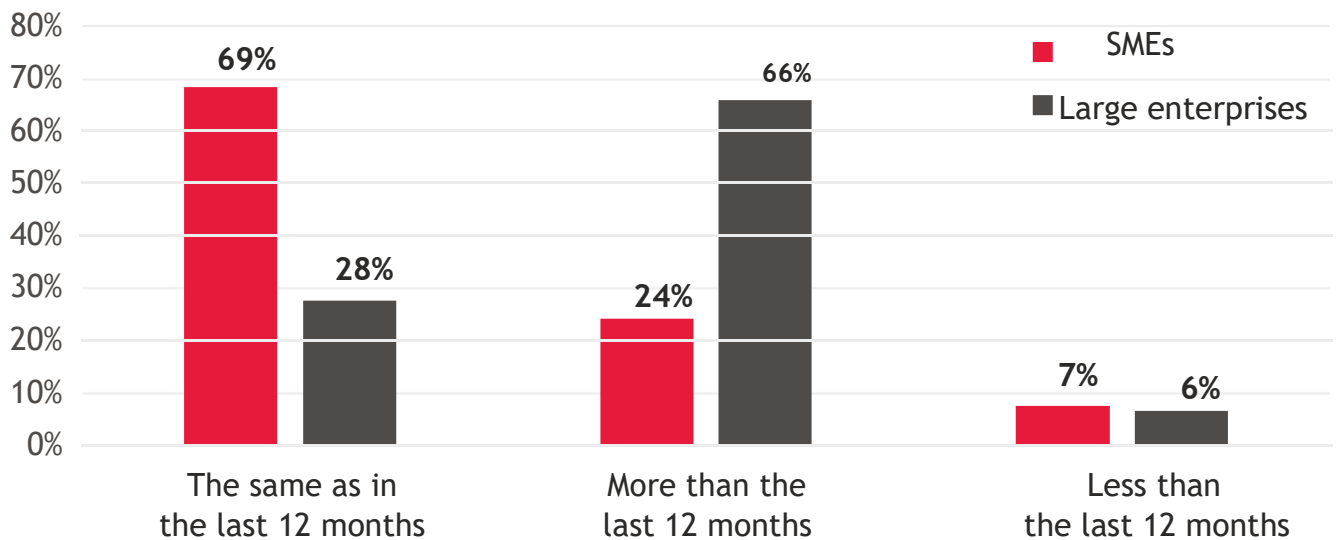
- Compiling and validation data
- Conforming to additional reporting frameworks
- Resources and expertise deficiency
- Modifications to internal procedures

Companies should check whether the law applies to them, if yes, they should start the preparation for the CSRD reporting as it is a complex task.

42% of the CEE+ companies would like to spend more on sustainability than in the previous year



What is the companies' attitude towards investing in their transformation?



Size matters, overall, SMEs spend less on ESG than large companies, but it is important to point out that is a wide variation in responses

77% of the companies focussed their investments on energy efficiency and green energy transformation. 18% of the firms devoted and concentrated on gathering sustainable data.

Large companies overall plan to spend more on sustainability programs. In contrast, SMEs are more likely to plan with the same budget

Sustainable and green finance

Nearly double as many large corporations as before aim to employ sustainable and green finance in the next 12 months.

Large enterprises in the CEE+ region are more interested in the topic of sustainable and green financing than SMEs.

Discrepancies between self-assessment and actual ESG actions



Sustainability management integration level

BDO's Sustainability Integration Roadmap

Activating:

Companies begin to focus their activities related to ESG factors

Compliance:

Companies comply with ESG standards and regulations

Proactive:

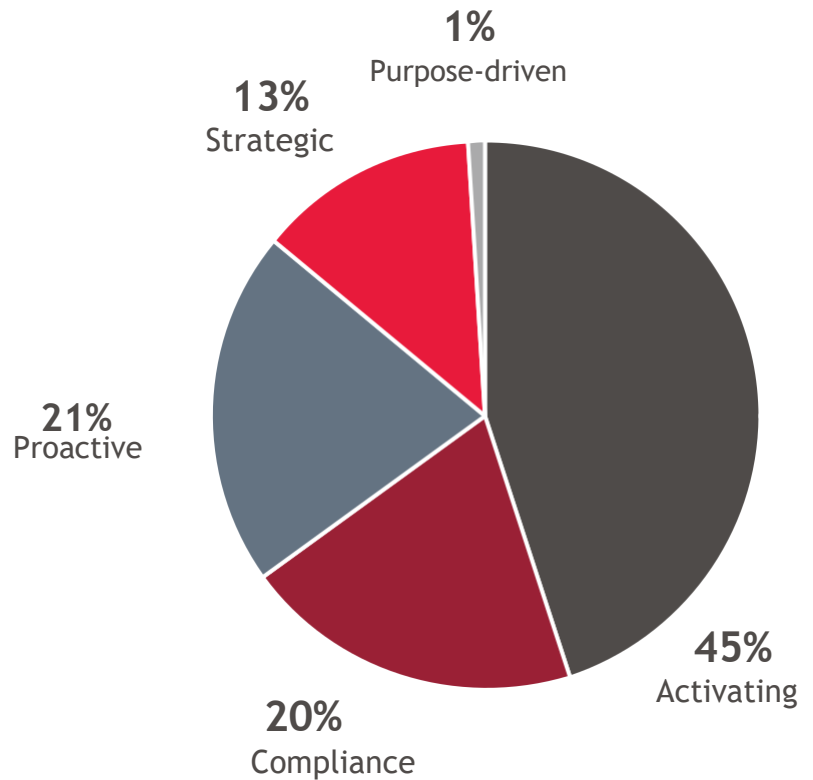
Companies proactively manage ESG factors

Strategic:

ESG becomes a strategic priority for the company

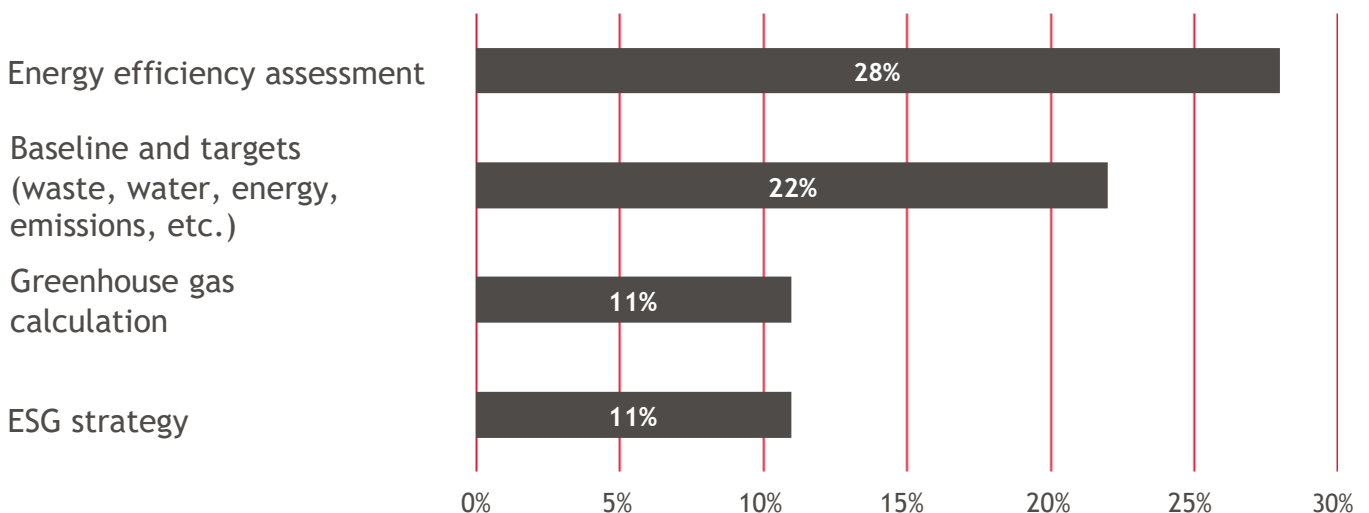
Purpose-driven:

Companies view ESG not only as compliance with regulations but as integrating ESG into their business mission.



Most of the companies (46%) consider themselves “activating” and only 1% think that their sustainability management integration level is “purpose-driven”. This means that generally companies are still at a starting level on their sustainability journey.

A comprehensive picture of ESG maturity: Top 4 steps that companies took to integrate ESG aspects.



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