INTEGRATION OF SUSTAINABLE INVESTING PRINCIPLES INTO BUSINESS STRATEGIES

Navigating the ESG practices, benefits, and perspectives

AMCHAM
NORTH MACEDONIA

Contents

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Foreword by AmCham ESG Committee

December 5th, 2023

Significant progress often stems from humble beginnings.

This accurately characterizes the inception of the ESG committee's work at the American Chamber of Commerce in the Republic of North Macedonia. What commenced a year ago with a modest 8 members has now expanded to over 20, with these individuals serving as trailblazers in advocating for the ESG agenda among Macedonian companies.

Not long ago, ESG was perceived merely as an interesting concept for companies, and the fulfillment of the UN Sustainable Development Goals for 2030 seemed like a distant prospect. Today, however, the ESG concept is increasingly viewed as inevitable.

Our world confronts the challenges of dwindling natural resources, climate change, and global crises. In this intricate landscape, the business community emerges as a pivotal force capable of fostering positive societal and environmental changes, contributing to resilience against global shifts. The imperative for globalization and integration into global supply chains underscores the necessity of incorporating the ESG concept into corporate operations, spanning not only large corporations but also small and medium-sized enterprises, extending even to the non-governmental sector.

Over the past year, the committee's primary focus has been to heighten awareness among Macedonian companies. This aims to prompt recognition of the advantages and best ESG practices, facilitating their smoother adoption through targeted education. Additionally, the third pillar of the committee's activities was active engagement in shaping public policies that govern the legal framework supporting the longevity of the ESG concept.

Companies that invest in the environment (E-Environment), society (S-Social), and effective governance (G-Governance) enhance their competitiveness in the global market, fostering a positive reputation within the community.

The success of any project depends on robust partnerships, particularly when addressing less conventional topics. Therefore, it is inevitable to express sincere gratitude to the Center for International Private Enterprises for their incredibly valuable support. CIPE's progressive perspectives and forward-thinking approach have played a pivotal role in the success and impact of the collaborative project.

Gratitude is extended to the American Chamber of Commerce in the Republic of North Macedonia for discerning the significance of the ESG concept during a critical juncture and for spearheading the formation of the ESG committee while endorsing its members' initiatives.

As the Committee's chairperson, it is a distinct honor for me to collaborate with all committee members and the office of the American Chamber of Commerce, collectively taking a qualitative step forward in our community.

Sincerely,

Ms. Frosina Geceva Kocova
Chair of the AmCham ESG Committee

Foreword by CIPE

December 5th, 2023

We at CIPE are proud to partner with the American Chamber of Commerce in North Macedonia (AmCham North Macedonia) on this initiative. It is our hope that the following materials will serve as a useful guide to your business when navigating non-financial reporting and formulating your sustainability strategy.

CIPE supports this project as we understand that an effective sustainability strategy represents an important competitive edge for business in the modern global economy. Being able to provide detailed information about your operations to potential investors and business partners mitigates perceived risk, ensuring continued market access and reducing the likelihood of regulatory violation. We have chosen to partner with the AmCham on this issue because we believe firmly that sustainability compliance is critical to further link the private sector in North Macedonia with international supply chains. At a time when new regulations - such as the EUs Corporate Sustainability Reporting Directive (CSRD) - are being phased in, being able to demonstrate that sustainability is part of your business strategy can give your company a competitive edge when working with partners subject to these regulations. We realize that this advantage can only be obtained if there is clear, sensible guidance for companies that translates abstract concepts into practical, actionable policies and procedures for your business, and hope that this handbook can fulfil that role for you.

It has been a privilege to work with AmCham North Macedonia on this project. We thank all who contributed to these materials for their expertise, connections, and professionalism that they have brought to this collaboration.

Sincerely,

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John T. Kay

e-Booklet for Sustainable Investing

This booklet is designed to inform and empower businesses with knowledge and insights into Environmental, Social, and Governance (ESG) principles.

Within these pages, you will discover articles explaining the core fundamentals of ESG and insightful interviews with company representatives, offering practical examples and inspiration for those dedicated to embracing sustainable and ambitious business strategies.

The structure of this booklet mirrors a journey through the landscape of ESG, beginning with a comprehensive introduction to the concept and gradually delving into its individual components.

Organized into five key sections, it starts by emphasizing the significance of ESG in corporate governance, tracing its historical roots, and presenting the importance of guidelines as valuable tools for sustainability-committed businesses.

The subsequent sections are aligned with the letters of the ESG acronym, each providing relevant information and practical advice for a better understanding of each pillar. It begins with a focus on the environmental aspect, examining the integration of environmental sustainability into corporate strategies and highlighting how visionary thinking in this area can yield a competitive advantage. The following section explores the social aspect, emphasizing strategic commitments to advancing social issues and building trust within societies. The Governance section examines practices and approaches for sustainable decision-making at the governance level. In the final section, this document offers an overview of the potential effects of EU ESG regulations on Macedonian companies and explores the intersection of data protection with ESG considerations.

I

INTRO TO ESG

ENVIRONMENTAL
SOCIAL
GOVERNANCE

1

ESG

The New Heir to the Throne of Corporate Governance

Article by the ESG Committee

The Corporate Social Responsibility concept has played its role perfectly in setting new, upgraded standards in corporate governance. Many societies around the globe have benefited from its ideas, principles, and values. However, even this concept has not remained immune to the demands of this new era for continuous improvement and mastery, which has resulted in the creation of a new and advanced concept in corporate governance, namely, the ESG concept. The evolution of this concept largely results from the increasing challenges related to climate change, the need to strengthen the resilience capacities of societies through investments in human capital, and the increasingly important role of corporate culture in the development of communities.

ESG is an acronym for Environmental, Social, and Governance. It refers to the activities of companies related to addressing environmental, social, and governance issues. Indeed, ESG is a response to the rising requirements for companies to consider environmental and social factors in corporate decision-making, as well as the public pressure for increased transparency in reporting with regard to these activities.

DISTINCTION BETWEEN ESG AND CORPORATE SOCIAL RESPONSIBILITY CONCEPTS

Although it is a great challenge to make a clear distinction between the ESG concept and the Corporate

Social Responsibility concept, drawing a parallel between these two concepts is the best approach for introducing the ESG concept before diving into details of the meaning and importance of the fundamentals on which this concept is based.

Establishing practices and policies by the corporate sector that aim to positively influence society is at the core of both concepts. But, although the core of both concepts is identical, they are very different in approach.

The purpose of the Corporate Social Responsibility concept is to ensure that the activities of the companies have a positive impact on societies, i.e., companies have increased understanding and responsibility for the impact of their decisions. The ESG concept undertakes that purpose and builds on it in a way that defines criteria and indicators for measuring the effects of these companies' activities. Both concepts are focused on completing social responsibility activities, but if the ultimate goal of the Corporate Social Responsibility concept is the implementation of these activities, the ultimate goal of the ESG concept is continuous improvement of the results of those activities. Moreover, if the Corporate Social Responsibility concept provides space for every company to self-declare as socially responsible, regardless of the activities undertaken or the degree of their impact, the ESG concept provides quantitative data based on unified indicators. These indicators allow not only measuring the impact of the activities and monitoring the progress but also opportunities for comparative insight between companies from various industries.

Based on the parallel drawn between these two concepts, the conclusion is that the ESG concept implies the establishment of a performance measurement system for the companies' activities related to the environment, social, and governance issues as fundamentals that define the agenda of a company for sustainable development and social responsibility.

CREATING NEW BUSINESS OPPORTUNITIES FOR COMPANIES

For each of these three fundamentals, goals, criteria, and indicators are defined that should be measured, monitored, and analyzed in order to achieve the desired result of having a positive impact on societies.

Criteria related to the Environmental aspect refer, but are not limited, to combating climate change and environmental and natural resources protection. Indicators for measuring the impact of a company's activities include, for example, the measurement of greenhouse gas emissions, consumption of electricity and water, etc. The Social aspect, in essence, refers to the social relations, that is, how a company influences and manages its relationship with the employees, customers, suppliers, as well as the community in general. Measured indicators in this segment include, for example, employee turnover rate, number of training hours for employees, etc. Criteria related to Governance refer to the manner in which the company is managed, including data for management structure, financial transparency, etc.

Considering the broad spectrum of company performance measurements, the first impression is likely to be that investing in ESG implies a high cost to companies in the short term. This is an accurate assessment but having and implementing a long-term ESG strategy positively correlates with financial profitability. There are several factors that contribute to long-term financial gains. One such factor is the creation of new business opportunities for companies, primarily a result of the recent generations becoming an increasingly significant part of the consumer and investor base. These recent generations tend to support the companies that share their values, and they are willing to pay more for sustainable products. Another factor is that the ESG Strategy will contribute to the advancement of a company's business operations by increasing employee productivity and reducing production costs through improved efficiency.

INDIVIDUAL APPROACH FOR EACH COMPANY

However, it is important to note that developing an ESG strategy requires an individual approach for each company, making the process itself a challenge. Indeed, developing and implementing an ESG strategy is a long-term and continuous process. The process must take into consideration the external factors which influence the business, such as the social, economic, and political context, the industry, and the design and structure of the entire supply/value chain. But, at the same time, developing an ESG strategy is an introspective process. It helps companies to improve their activities and find and foster the organization's true values.

Therefore, the ESG concept is becoming increasingly popular, and many companies, often voluntarily, integrate ESG into their annual reports to demonstrate how the sustainability aspect is embedded in their business model. Also, in recent years, regulatory requirements have been introduced in relation to corporate ESG data reporting, which is another indicator of the future role and importance of the ESG concept.

How influential the corporate culture focused on continuous improvement is, both from an internal perspective as well as from the perspective of the communities around it, shows the vulnerability of the systems and societies to the challenges we face. Therefore, the premise "The best time to act is today" becomes true, and implementation of the ESG concept in corporate governance is the right step in that direction.

2

The History of ESG

A Century-Old Vision

Article by the ESG Committee

ESG as a concept has existed for about a century, and it has seen a unique actualization over the past decades, after becoming a part of the corporate governance reports. Although it is quite popular to talk about this topic, there is still a need for this topic to be demystified, due to its intricacy and depth.

More than 90 years ago, the young Professor Adolf Berle, from the Business School of Columbia University, who today is considered the father of the ESG concept, saw major state-owned corporations as the most powerful entities capable of initiating social change. In 1930, Prof. Berle explained the idea of regulating this aspect of the work of corporations and claimed that through the introduction of social responsibility certain social obligations can be imposed on for-profit corporations. From the very beginning, this concept faced general skepticism – whether such social obligations can even be imposed on for-profit corporations, given that the primary objective of shareholders is profit maximization, and this idea is completely contrary to the motives of investors. To realize this idea, Professor Berle began to promote the role and importance of professional managers in a company, thus reducing the role of shareholders to passive investors. Despite the fact that many at the time believed that this idea reinforced distrust in corporations and led to their massive economic inefficiency, he believed that the regulation of social responsibility should be enhanced proportionally to the growth of profits, but at the same time that corporate law should reflect the reality.

Although the initiative was conceived nearly a century ago, today people still wonder if it is possible to impose "social" obligations on for-profit companies. The changed role of shareholders into passive investors and the managers' power over resource allocation enables these managers to steer resources toward community priorities. This way, the influence and thus the pressure of the shareholders if they oppose is reduced. Furthermore, Governments are entrusted with directing this transformation through a variety of legal, formal structures and programs, while businesses and investors play a crucial role in maximizing the prospects.

The term ESG was mentioned for the first time in 2005 in the study "Who Cares Wins".

Investing in ESG began in 2004 with a letter from the Secretary General of the United Nations, Kofi Annan, sent to more than 50 CEOs of large companies. This way, Kofi Annan initiated to jointly find a way to integrate ESG in their companies, and accordingly to produce a report that will prove that the acceptance of ESG makes business sense and leads to self-sustainability, but also to a healthier society. This move sets the stage for the launch of the New York Stock Exchange's Principles for Responsible Investment in 2006 and the launch of the Sustainable Stock Exchange Initiative the following year.

The growth and development of ESG investments were neither linear nor continuous, despite their quick move into the mainstream. Despite investors' initial reluctance to embrace the ESG concept on the grounds that their work was focused on maximizing value and profits for shareholders regardless of environmental or social impacts, their interest shifted in light of mounting evidence that the ESG concept has positive financial implications. Already in 2019, a total of 181 corporations signed a Statement called "Corporate Purpose", which commits to adopting sustainable practices, encouraging diversity and inclusion, supporting communities, improving transparency and engagement with stakeholders. At the meeting in Davos in January 2023, David Solomon announced that Goldman Sachs would no longer list a company on the stock market if it did not have a female or "different" director.

Apparently, the more things change, the more they stay the same. What is also clear is that Berle's vision is essentially the new reality in which the Government must lead the way in this transition, but companies and investors must follow this development by creating synergy.

The level of ESG development is one of the indicators of the development of countries and societies, the way they change, but also how the value system adapts to these changes. The big challenge for most corporations is to adapt to this new environment that favors smarter, cleaner and healthier products and services and leave behind the industrial era of pollution, labor considered as a cost and workload as the main strategy determination of companies.

ESG investing has developed to the point where it can significantly accelerate positive market transformation. Acceptance and implementation of the ESG concept provides investors with information on which companies are preparing for the future. For policymakers, ESG refers to development that safeguards the common good against short-term profit maximization, while consumers enforce the need for ESG and influence companies to embrace and apply the concept to more quickly engage in this value chain. ESG standards are a way to measure and assess how companies are doing in fulfilling that important role, and many investors are already looking to include ESG aspects alongside traditional financial analyses in financial statements.

ESG Guide

A New Tool for Dedicated and Ambitious Companies

Interview with
Mr. Ivan Shteriev
CEO at Macedonian Stock Exchange

The Macedonian Stock Exchange published an ESG Reporting Guide. As an acronym for Environmental, Social and Governance, the ESG Guide refers to reporting on activities related to the environment, social issues and governance. According to Mr. Ivan Shteriev, the Chief Executive Officer of the Macedonian Stock Exchange and member of the AmCham ESG Committee, the ESG Guide is a practical tool for listed companies for disclosures related to ESG standards and enables them to fully comply with the new Corporate Governance Code. Undoubtedly, other listed and unlisted companies can use the Guide as well, which intends to facilitate this new type of reporting by corporations, as ESG is a relatively new topic in our corporate world.

First and foremost, congratulations on the Guide to ESG Reporting, which is a publication that addresses a topic that is not widely recognized in our country in an easily understandable manner, providing an excellent introduction to ESG and what it means for all stakeholders. What can you tell us about the Guide itself?

Global stock exchanges play a crucial role in promoting sustainable investment by increasing corporations' understanding and transparency of this topic. Under the auspices of the United Nations, the Macedonian Stock Exchange has participated in the so-called Sustainable Stock Markets Initiative. This Initiative provides a global forum for conversation between stock exchanges, investors, companies, regulators, and other relevant stakeholders. As a result, the Macedonian Stock Exchange, together with other market operators that are members of this Initiative, is fully committed to promoting the ESG concept and ESG reporting.

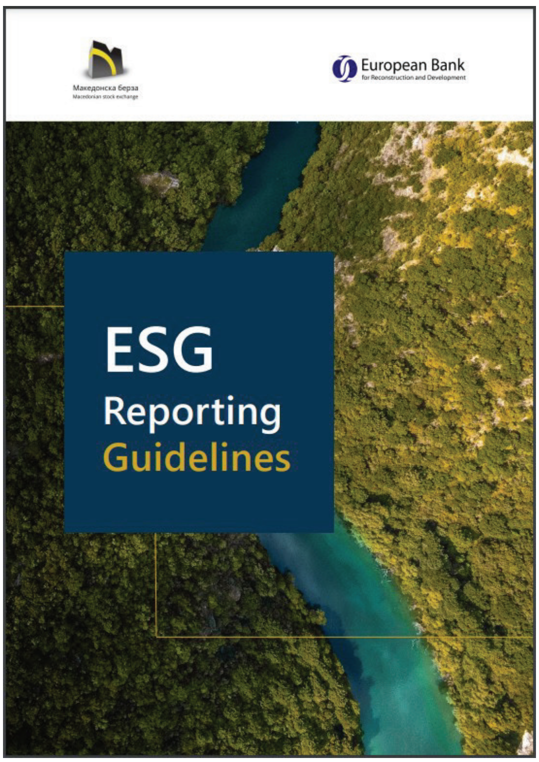
With this in mind, we included a special chapter on ESG issues in the new Corporate Governance Code of the Macedonian Stock Exchange, which was prepared jointly with the Securities Commission and implemented with the support of the European Bank for Reconstruction and Development.

The Guide provides a clear, uniform, and transparent structure for ESG reporting that is harmonized with European standards in this area and supports good corporate practices for informing investors about environmental, social and governance responsibility. It covers what ESG reporting is and why it is essential, as well as the main international reporting standards and frameworks. At the same time, this Guide includes suggestions for minimal disclosure and a step-by-step approach to ESG reporting, answering the issues of what, why, and how to disclose.

What are the reasons that the Macedonian Stock Exchange encourages and supports the adoption of ESG in the corporate sector, and what does this signify for businesses? What differentiates and distinguishes this concept from the concept of social responsibility?

New challenges are being faced by the world in general and businesses in particular in achieving long-term sustainability. Topics related to the environment, social issues and corporate governance are gaining significance. Moreover, investors are increasingly incorporating so-called ESG factors into their investment strategies and expecting businesses to report on their ESG practices. Consequently, businesses are becoming more aware of these factors and incorporating them into their organization and decision-making processes.

Transparency inspires trust in the capital market and in the companies themselves. The Macedonian Stock Exchange endeavors to provide conditions for responsible trading. Knowledge is one of the fundamental requirements for responsible trading, and knowledge depends on information that is comprehensive, complete, timely and transparent to all market participants. With this ESG Guide, we seek to enhance corporate reporting on the environment, social issues, and corporate governance — areas that are gaining greater attention from investors all over the world.



The application of the ESG concept and the improved performance of enterprises in this aspect have numerous benefits, including higher efficiency, improved risk management, a reduced cost of capital, new business opportunities, a greater reputation, and increased investor interest. The ESG Guide should assist Macedonian companies in being better prepared to respond to the needs imposed by international business relations, as well as the European regulatory standards that are anticipated to be incorporated in the local legislation in the near future.

What separates and makes the ESG concept different from the concept of corporate social responsibility is that ESG is more comprehensive, but more importantly, it is measurable. Namely, this concept is integrated into the company's overall organizational process and risk management systems, and it includes the determination of quantitative goals and the application of methods for evaluating the impact of achieving those goals. This concept applies the so-called "double materiality" principle, in which companies are required to first determine, and then disclose how their operations and performance are impacted by ESG risks and opportunities (the so-called "outside-in" perspective) and how they impact the environment and society as a whole (the so-called "inside-out" perspective).

Does the business sector's adoption of ESG standards and policies outlined in the Guide need specific prerequisites and/or depend on certain factors (such as company size, industry, budget, and the business climate in which the company operates)?

Clearly, resources are required for the incorporation of the ESG concept into the operations of businesses. Hence, factors such as company size and budget have their influence. The company's characteristics, and industry, as well as the company's degree of motivation to integrate the ESG concept may influence the choice of ESG reporting framework.

The motivations behind a company's decision to implement the ESG concept can vary. Each business has a unique strategy, but there are practically no predetermined requirements. It is mostly about the company's commitment to implementing the ESG concept. Regulatory efforts as well as investor and other stakeholders' pressure on companies to adhere to international best practices have a major impact. Most of the time, these pressures serve as the impetus for the ESG implementation process, but they should actually be viewed as an immediate challenge to which companies should answer.

Does our country have the necessary "infrastructure" for businesses to become ESG-compliant (adequate knowledge, legal framework, circumstances, specific incentives, international/governmental support)?

Regarding the "infrastructure" of the ESG in North Macedonia, it can be said that it is in its initial phase, but it is anticipated that it will be updated swiftly. Adoption of a new regulatory framework for the markets of financial instruments and for the transparency of securities issuers is on our agenda for compliance with the European law. The EU is the leading organization in the world in terms of promoting and implementing ESG standards. European solutions in the sphere of ESG are expected to be normatively incorporated. The recently adopted Strategy for the Development of the Capital Market in the Republic of North Macedonia raised the issue of green investments in securities and their fiscal incentives, as well as the possibility of issuing emission quotas as financial instruments. In the coming period, opportunities for investing in long-term green initiatives will be bolstered by decreasing their investment costs. Fiscal incentives of this plan are reflected in the tax laws of various developed countries. "Green taxation" has already been announced by the Government with the Tax System Reform Strategy. If progress is made in this area, the Macedonian Stock Exchange is prepared to develop a dedicated category for the so-called "green market," which would additionally give greater recognition to such financial instruments as well as for both issuers and investors.

The ESG concept is a key focus of many international organizations, and the most recent trend is to support the development of digital tools to improve ESG reporting and knowledge exchange on ESG issues. The Macedonian Stock Exchange is currently actively working on inclusion in several such regional projects.

What is the starting point for businesses looking to implement this concept? How is the entire process carried out, and does it have a beginning and an end, or is it a continuous, ongoing process?

ESG implementation is a continuous and long-term process that requires ESG factors and risks management. The need for an integrated strategy stems from the fact that sustainable development of the organization is impossible if the consequences of ESG factors are not adequately addressed. The starting point in the implementation of this concept and having an integrated approach to ESG risk management is companies to identify all stakeholders for whom their ESG reporting will be intended. Then, an evaluation of importance should be performed i.e., a material analysis to determine which ESG factors are relevant to the company and its stakeholders in order to develop a strategy for ESG risk management. The list of activities to become ESG-compliant is extensive and varies according to the characteristics of each company. Anyways, they take place on a continuous basis, i.e., ESG implementation basically means a modus vivendi for companies striving for sustainability.

Proactive ESG risk management allows companies to stay abreast of the latest trends and regulations and make more sound investment planning decisions. Implementing environmental management systems for more efficient use of water and energy and reduced waste production is not only beneficial for the environment, but also for the final company's financial results. For many industries, energy is among the largest operating costs, which means that greater energy efficiency can help reduce costs. Additionally, good human capital management may enhance employee motivation and productivity. Companies who view the ESG concept as an important process search for adequate business solutions and supply/value chain partners. Typically, this involves integrating ESG standards into formal procurement policies and bidding processes. Suppliers who can fulfill these standards will be better positioned and have a competitive advantage in regard to their competitors. Strong ESG performance may also improve personnel's perceptions of the company and impact on its ability to attract and retain competent employees. Financial institutions are becoming increasingly aware that financial metrics alone are insufficient for determining a company's risk profile and value creation potential. Access to capital in general, and the cost of financing in particular, may be impacted by the company's potential future exposure to ESG risks and its management of those risks.

What is the representation of ESG-compliant companies in our country compared to the Balkans, as well as the EU? Are there any projections regarding its future expansion, development and speed?

North Macedonia already has companies that have developed their own ESG strategies and are currently implementing them. However, it is still too early to discuss ESG-compliant companies and to make regional or European-level comparisons. Definitely, what can be expected is a more intensive development of this concept and a wider spread of the ESG business philosophy among the business sector, as a prerequisite for the number of ESG compliant companies to continue to grow in the medium and long term. Regarding the largest listed companies, measuring the compliance of our blue chips with ESG standards will be possible only after 2023 given that the Macedonian Stock Exchange at the request of several companies, started the mandatory application of the new Corporate Governance Code in 2023. In the meanwhile, monitoring methods for compliance with the new Code and their reporting on environmental, social, and governance issues are being developed. Consequently, the ESG compliance of this group of publicly traded firms will be completely transparent in the very near future.

Although ESG is a relatively new concept in our country, it is gaining importance among Macedonian businesses and local investors. In the past period, while actively communicating with listed companies about the new Code and ESG Guide, we could notice that despite being at the beginning of their ESG journey, they have incorporated sustainable operations and the transition to a sustainable, environmentally friendly and socially inclusive economy in their strategic directions and agendas.

II

UNDERSTANDING ENVIRONMENTAL (E) IN ESG

4

Embedding Environmental Sustainability in Corporate Strategies

Article by the ESG Committee

ESG (Environmental, Social, and Governance) reporting is a framework for measuring the sustainability component, namely it provides insight into how a company manages environmental, social, and governance activities.

This new and advanced concept, in addition to the progressiveness it provides in corporate management, also represents a considerable challenge that imposes the necessity for anticipation of all aspects during its implementation. Hence, the approach to presenting the ESG concept must be meticulous and comprehensive.

In that direction, it is essential primarily to expound on the meaning and purpose of each of the three fundamentals ESG is based on, beginning with the first letter of the acronym, which refers to Environmental.

The Environmental aspect of ESG represents a company's strategic commitment to preserving the environment, particularly protecting nature, reducing the negative impacts of climate change, and sustainable use of natural resources. However, it is crucial to emphasize that although activities related to the environment have the broadest practical application, social and governance issues are equally important. On top of everything, the ESG concept is an excellent example that sustainability encompasses much more than just environmental issues.

WHY ARE ENVIRONMENTAL ISSUES PART OF ESG?

Factors related to climate change and the management of natural resources strongly influence the modeling of the society in which we live today because sustainable development and future prosperity are ensured through them. The state of the environment is also closely related to human health and well-being because heat waves, floods, degradation of fertile land, and loss of biodiversity are threats that already call into question the provision of basic needs such as clean air, water, and food. In addition, climate risks threaten to deepen the inequality between social classes, thereby decreasing global economic growth.

With emerging challenges related to the environment, the need to undertake activities in this regard by all social stakeholders is becoming more relevant. Therefore, if factors associated with climate change and natural resource management were once considered trivial aspects of corporate governance, today, these factors play a crucial role in the decision-making processes of companies.

ENVIRONMENTAL SAFEGUARDING CREATES VALUE FOR COMPANIES

As a result of the actualization of environmental issues, companies face the challenge of having to adapt to the new requirements imposed by the markets to redesign business models. Indeed, building a corporate brand image based on the establishment of practices that enable care for the environment is valued and recognized by all stakeholders

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Consumers show a strong preference to allocate their purchasing power towards environmentally responsible companies. These companies have better and more affordable access to capital due to greater interest from investors. Given that environmental safeguarding is becoming a top priority in the political agenda, key policymakers are more open to cooperation with companies that share these values. In addition, in experiencing constant and rapid changes in the labor market, these companies have the status of "preferred employer" because they have developed a corporate culture that overlaps with the values of the employees.

HOW AND WHICH ACTIVITIES RELATED TO THE ENVIRONMENT ARE MEASURED?

The process for measuring the impact of corporate activities on the environment consists of three stages. It starts with identifying the activities that potentially affect the environment. Then, the key indicators and the reporting period are defined, and, as a third, final stage, there is a precise delegation of responsibilities to all competent organizational units.
Indicators related to the environment, although they largely depend on the type of industry, may be grouped into several categories:on the stock market if it did not have a female or "different" director.

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ESG investing has developed to the point where it can significantly accelerate positive market transformation. Acceptance and implementation of the ESG concept provides investors with information on which companies are preparing for the future. For policymakers, ESG refers to development that safeguards the common good against short-term profit maximization, while consumers enforce the need for ESG and influence companies to embrace and apply the concept to more quickly engage in this value chain. ESG standards are a way to measure and assess how companies are doing in fulfilling that important role, and many investors are already looking to include ESG aspects alongside traditional financial analyses in financial statements.

ELECTRICITY CONSUMPTION	GREENHOUSE GAS EMISSIONS
WATER CONSUMPTION	WASTE MANAGEMENT
PAPER CONSUMPTION	USE OF NATURAL RESOURCES
AIR POLLUTION	NOISE EMISSIONS

Some of the indicators that are measured within these categories are the amount of electricity consumed, the amount of electricity used/produced from renewable sources, the amount of water consumed, the paper used and recycled, the emission of particles into the air, the emission of greenhouse gases during business trips, the amount of generated waste, the rate of recycled waste, the total area of land used, etc.

These indicators depict the effects and impact of the activities of a company on the environment, both in terms of its direct operations and throughout the supply chain.

CHALLENGES IN IMPLEMENTING ESG

Like any other process of monitoring data and preparing a report, this one is complex and requires the allocation of resources. Lack of knowledge of the subject, including low awareness of the importance and benefits of this concept, is another challenge that deserves particular attention in order to create conditions for its implementation. Companies still do not recognize that if they do not integrate ESG practices into their operations, they will not be able to cooperate with other companies and corporations, they will face regulatory restrictions and sanctions, and they will face significant challenges to protect their corporate image. The process of implementing the ESG concept is further complicated by the fact that there are still not any commonly accepted and unified rules for ESG reporting worldwide. In other words, a comprehensive and reporting framework has not yet been defined.

These challenges can be overcome through a constructive partnership between key policymakers and stakeholders. It is the most appropriate way to ensure the right strategic directions and incentives and to transform the needs into effective and practical solutions.

BEST CORPORATE PRACTICES TO IMPROVE THE RESULTS OF ACTIVITIES RELATED TO THE ENVIRONMENT

Digitization of processes and use of digital services, installation of solar collectors, and reconstruction of buildings to ensure high energy efficiency are some of the practical examples implemented by companies in reducing electricity consumption. In order to reduce greenhouse gas emissions, more and more companies have opted to purchase electric vehicles or to organize actions for afforestation. In the efforts to achieve the goals for responsible use of water, companies are establishing systems for automatic control of consumption. Furthermore, initiatives are being implemented to reduce electronic waste and reuse old electronic devices. Activities are also being undertaken to support business ideas and concepts for dealing with climate change through the organization of workshops, mentoring, and financial resources for their completion.

Visionary Thinking Allows a Competitive Advantage

Interview with

Aleksandar Hristov & Filip Hristov

Managing Partners at Propoint

From plan to action! In the manner of 3 years, the printing house Propoint managed to transform its business model and become completely green. This small, but dynamic company has implemented a 100% green strategy that contributed to being different and agile in times of uncertainty.

The ability for effective and efficient implementation of the decision to work in accordance with a completely green strategy is an art that integrates economic, social and environmental dimensions, said Aleksandar and Filip Hristovi, Propoint's founders. According to them, the quality's superiority allows competitive advantage, but continuous investing is necessary including monitoring global trends to maintain a high position in the market. By replacing the traditional operations with economically viable, clean-green operations, Propoint has managed to produce around 500 MW of electricity annually from solar panels. By doing so, Propoint has reduced its yearly carbon dioxide emissions by around 470 tons. This is especially important in times full of social, economic, and energy uncertainty.

The transformation of solar into electric energy, including every other investment, denotes accepting a certain risk, but it also allows a higher level of agility. Proactivity and visionary ideas for the accomplishment of this self-sustainable working concept have directed Propoint's focus on social responsibility and care for future generations. In turn, this has set it apart from the competition and was seen as stable by its business partners.

More details for this transformation are shared by the brothers Hristovi, who have revealed their experiences with us.

Despite Propoint's categorization as a medium-sized enterprise, it has successfully completed a single chapter that added a dimension of self-sustainability in its operations. Investment in implementing a comprehensive, environmentally friendly solution in the operations of a single company is considered to be a major, and for some, a brave decision. This decision, which is a win-win solution, signals market repositioning and, as a result, the creation of a new strategy. How did Propoint manage to complete this process and directed its operations toward the accomplishment of this idea?

Self-sustainability has been a very popular topic recently, and it has become even more popular as a result of all of the changes and challenges the world is facing with growing electricity rates and its availability. We had been thinking for a long time of possible ways to preserve nature, so we decided to start with things that were dependent on us and our business.

Wanting to grow into a green company, we decided on a straight-line approach, that is, implementing this idea in all segments of our operation – from using solar energy to produce electricity to integrating electric vehicles for product delivery. The motivation and the desire to improve the work process and the working conditions, at a given moment, imposed the necessity of changes and new types of investment. The greening experiences of numerous foreign companies that are intensive consumers of energy testify to numerous benefits and reduction of operating costs even by 50 percent.

For a single company to become completely green, apart from motive and desire, it needs a financial investment that depends directly on the size of the company i.e. it is proportionate. If the company spends less on electric energy, the investment is smaller and vice versa. If the company is bigger, it means bigger electricity spending and consequently it uses a bigger solar panel system. Therefore, everything is a choice and this type of conceptual change in the company's operations depends directly on the company's needs and readiness to invest in the future.

In all of the phases of accomplishing this strategy, we were trying to keep the 100% green concept and to achieve an even greater self-sustainability percentage. Like in any other business, our long-term plans and expectations through this investment have been to cut the operative costs and the complete change to allow us a competitive advantage, which basically we managed to achieve.

The change in the working strategy means changes in many aspects of our work. For such a decision to be made, it is important for the manager to have all the necessary information that will ease the decision-making process. When did you realize it was time for such crucial change? Was the company's liquidity jeopardized as a result of this decision?

The idea of a company's efficiency improvement through the smart use of natural resources is fantastic, especially the idea that one can achieve superior efficiency on the account of causing smaller environmental damage.

It is true that such investment requires creativity, especially during an economically uncertain period, but it is also necessary to consider the timing, the regulatory environment, and the impact of technology on the quality of life. The company's liquidity was never jeopardized because we approached the implementation objectively, patiently, and calmly. The investment cycle was not completed in the anticipated timeframe, but we experienced a little delay in our regular equipment investments.

Regardless, in our situation, it turned out that we had chosen the proper time to implement this concept, which demonstrated that the advantages outweighed the risks. The initial benefit was immediately visible and referred to competitive advantages, but our greatest gain was that Propoint achieved a level of self-sustainability during times of crisis because these sorts of enterprises are more resilient to unexpected rapid changes such as electricity pricing and availability today.

Given that you are pioneers in the implementation of this green office concept, you have undoubtedly encountered obstacles in the acquisition of necessary materials for the uninterrupted operation of solar panels, electric cargo vehicles, and a variety of other equipment. What have been your experiences and recommendations for overcoming similar challenges? What was the battle that you won and has made you proud?

When we work to increase energy efficiency or improve productivity by utilizing certain resources, we save, increase profitability and strengthen competitiveness. But the fact is that in our country the synchronization of certain processes is difficult, which is one of the reasons why some companies are still delaying their involvement in the so-called green eco system. The excuse is usually that the investment is large and cannot be fully planned, however this is not the case. The biggest challenge we faced was the lengthy administrative procedures required to obtain certain permits that would allow the work to run uninterrupted. It was clear to us that the existence of an administrative burden was something that could not be avoided in this process. However, if administrative procedures are simplified, enterprises will be able to transition more easily into self-sustaining ones.

The first challenge was incorporating the eco dimension into the strategy. We realized that it is most important to have vision and persistence when implementing a solution that is creative, and above all pioneering. On the other hand, the biggest challenge we faced in the whole process was the procurement of 100 percent electric delivery vehicles, which were not available in our market, and had to be obtained from abroad. Namely, the production of electric delivery vehicles is not as large as those that run on fossil fuels, and they are not immediately available, so we have been waiting for them for a long time.

Adopting this concept means simultaneous improvement of different aspects of the work, but this requires available options and conditions in the local market. In this scenario, despite the fact that we purchased the electric vehicles from abroad, there is no opportunity for their maintenance and servicing in our country. If this is made possible in our market, more efficiency and a faster adoption of this concept will be accomplished because it will assist the removal of these barriers and inspire businesses to begin their "greening.". With this step, we have finished the process of "greening" our production and product delivery by employing 100 percent green energy by the end of this step. "Propoint" is not only the country's first green printing house, but also the country's first "100% green enterprise."

The corporate culture also reflects the operations and, ultimately, the accomplishment of the overall organizational strategy. By implementing a green strategy, the employees were most likely prepared for what they would face. Are there any changes in employees' habits and relations, and have you encountered any resistance to change?

It takes time to move from an idea to its realization. Because proper planning allowed us to have the necessary time to train Propoint's employees on the meaning of self-sustainability and potential benefits, because a strong company can only be sustainable if it integrates the benefits of the living environment as well as the benefits of economic and social aspects.

Certainly, there are changes within the organization; we started with great enthusiasm about something that was previously unknown, and that enthusiasm was carried on and welcomed by the employees. Today they are happy that certain processes have been made easier for them, but also proud that they are employed in a company that is green and cares for future generations. Despite the great challenge of integrating this type of "environmental excellence" into all aspects of operations, we are proud to have managed to raise awareness of the importance of the environment and to successfully implement an idea that at one point was only a distant dream.

III

UNDERSTANDING SOCIAL (S) IN ESG

6

Strategic Corporate Commitment to Social Progress

Article by the ESG Committee

It has been challenging not only to set priorities but also to keep the focus on solving the key issues at hand due to the permacrisis or long period of instability and insecurity we have been facing in recent years. The effects and consequences of each crisis intensify, and the list of priorities changes constantly. However, when public policymakers were put in a situation to make decisions where one choice involved being responsible for as many human lives as possible, the importance as well as the necessity, of increased attention to social issues became profoundly evident. Taking into account the strong influence these social issues have on societies as a whole, it is clear that collective action, in which corporate responsibility is particularly powerful, is necessary.

Strategic commitment to advancing social issues has already been integrated into the focus of corporate agendas, especially by large corporations. It is evident that positive practices in that direction will continue since the concept of ESG (Environmental, Social, and Governance) has become increasingly prevalent. Indeed, this concept provides a cohesive approach to the efforts of creating a corporate sustainability strategy. Depending on the values, needs and expectations of key stakeholders and business model, the ESG concept addresses and integrates factors related to the environment, social issues and governance in decision-making processes.

Corporate responsibility for social issues within the ESG framework refers to how a company affects and manages relationships with its employees, consumers, suppliers, as well as the environment in general in which it operates. The central issue is people, both from the aspect of its direct operations, which includes the management of its human capital and its products and services, and from the aspect of indirect operations, which includes the consideration of social policies and practices throughout the supply chain, as well as corporate social responsibility. As a result, the goals are aimed at improving the working environment for employees and their skills, protecting human rights, including the fight against modern slavery and child labor, as well as active participation and cooperation with community members in solving issues that affect their well-being.

To successfully achieve these goals, companies establish indicators, the ultimate goal of which is, through their measurement and monitoring, to advance activities in the direction of building robust societies. Some of these indicators include the number of new employees, employee turnover, percentage of employees who have access to career development information, the average number of hours of training per employee, total hours of volunteer work by employees, the total number of individuals who have benefited from a project or campaign, the number of free services or services with drastically reduced prices, the amount of donations given to society, as well as the number of suppliers who have committed to complying with a certain code of business conduct. Also, indicators in the area of social issues include measuring data related to workplace injuries, promotion and advancement of employee health care, gender equality and diversity.

However, measuring these indicators to determine the social impact of corporate activities has its own challenges. The prevailing view is that when it comes to ESG reporting, social issues are the most difficult to measure. Namely, in addition to the standard challenges related to ESG reporting, the complexity of social issues arises predominantly from the challenge of defining generally accepted and unified standards for measuring social impact. An additional challenge is ensuring the involvement of stakeholders in supply chain processes. Nonetheless, as complex as it is, it is not impossible. In fact, many companies proactively implement factors related to social issues into their strategies and decision-making processes encouraged by the value that is created.

In addition to boosting business opportunities and improving employee productivity, as well as building a powerful and reliable corporate brand that is recognized by all stakeholders, attention to social issues is particularly significant for creating resilience and preventing certain risks. For example, taking care of employees and consumers minimizes the risk of labor strikes or consumer protests that can seriously affect profitability and reputation. Policies related to supply chains might minimize exposure to various conflicts and crises, thereby contributing to enhanced stability in operations.

Some of the corporate practices carried out by the companies that are part of the ESG Committee in the American Chamber of Commerce in North Macedonia related to social issues include initiatives for educating young people, caring for vulnerable and older population categories, building models for active participation of company employees in solving social issues, as well as supporting cultural and sports events and activities that are of public interest. Also, in terms of employee care, activities include improving their physical and mental health, as well as creating opportunities for improving their skills. Supply chain activities typically include the creation and distribution of a supplier code of conduct that ensures adherence to ESG standards in business operations.

Building Trust and Creating Long-Term Value through Corporate Responsibility

Interview with

Mr. Dragan Gonev

Head of International Banking
and Financial Department at Halk Bank

Halk Bank becomes part of the companies which are implementing the ESG strategy (Environmental, Social, Governance), showing its dedication for understanding and managing the environmental influence, social issues and management practices. The primary motivation of Halk Bank for implementing this strategy is rooted in the idea of active participation in achieving sustainable development and capitalizing on its benefits. Recognizing in parallel the importance of the financial sector in balancing between economic growth and sustainable practices for building a prosperous future, Halk Bank sees the implementation of a comprehensive ESG strategy as a factor which will generate positive results in the operation of and development of the bank itself by improving risk management, creating new opportunities for accessing long-term sources of financing and harmonizing the corporate strategy with increased awareness for sustainability in new generations.

Through the bank's slogan "People are important", Halk Bank has built a reputation of a company which has a high degree of corporate care for societal issues, which are one of the three ESG pillars and which among other things entail relationships with employees. Can you share examples of how this philosophy reflects in the bank's everyday work and decision-making processes?

The corporate care for social issues is part of the corporate strategy of Halk Bank through which the impact from the business activities on the environment, clients, employees and other stakeholders is monitored. The bank implements corporate and social responsibility in its everyday work, as well as in the process of making business decisions through various initiatives.

Halk Bank actively works on reducing its carbon footprint with various environmental activities and initiatives which positively reflect on the environment. The bank through its ethical and business practice adheres to fair work standards for its employees and equal access for everyone, which positively impacts employee engagement, i.e. nurtures a positive work culture. Within this initiative are the opportunities for personal and professional development of all employees and achieving a work-life balance.

Apart from these initiatives which are practiced by the bank, the societal and social responsibility is implemented in the products themselves which are defined as products that promote social wellbeing and sustainability. Namely, Halk Bank has developed a wide variety of products through which it provides support to small and medium enterprises, women entrepreneurs, as well as loans for new job creation, self-employment etc. In addition, in the past 20 years, as a banking sector pioneer of green financing, and in cooperation with domestic and international financial institutions, there was continuous support through green loans for its clients.

As part of the ESG strategy, the bank created a special platform for supporting women within the framework of which a special business package for women entrepreneurs was created. The idea of this business package is to facilitate access to financing under favorable conditions to companies where founders or owners are women. Apart from the business package, within the framework of the broader platform for supporting women, the bank recently organized creative campaigns and events. The last campaign of this type was the campaign "Dresses with pockets" which was dedicated to the promotion of equality, financial independence and support of women. This campaign had a humanitarian character as well, i.e. the funds collected at the auction were donated to the National Network to End Violence against Women and Family Violence. During the month of November, under the motto "We inspire and encourage each other" the first business conference of women entrepreneurs "HalkTalk 2023" was organized.

The benefits from the successful integration of a high-quality strategy for corporate and social responsibility are visible also through the results of operational activities and in the process of making high quality business decisions every day. Over the years, the successful strategy has helped the bank in building a positive reputation with its clients and employees. Our clients recognized the bank's commitment for social and environmental responsibility, which enabled an increase of the number of new clients which decided to join and support this commitment of the bank. All this contributed to create a positive work culture of the employees, with increased work satisfaction and bigger engagement and motivation.

If everything mentioned above needs to be summed up, it can be said that by incorporating the ESG strategy in everyday operations and decision-making processes, additional long-term value for our clients was created, but also a better positioning of the bank for overcoming the challenges of the dynamic business environment, thus providing sustainable growth and a positive societal impact.

Can you give examples of initiatives or projects that the bank has undertaken for active involvement and support of the local community? How does the bank guarantee that its efforts for engaging the community are aligned with the needs and priorities of the communities it serves?

When it comes to the bank's initiatives for supporting the local community, we can safely say that all employees are part of this story, including the top management. In order to get to the needs of the local community in a simpler way, the bank participates in various interviews, surveys and works with certain focus groups. By understanding and detecting the needs, Halk Bank managed to better align its efforts for engaging the local community to which it unreservedly serves.

The effect from this social engagement of the bank is measured in multiple ways. Measuring the impact of our community engagement projects has helped us to understand better how out initiatives contribute to the needs and priorities of the communities we serve. Through these projects, apart from economic impact and benefits such as new jobs and improved productivity, we cannot ignore the social impact. An important factor for measuring the quality of these projects is the local community engagement, i.e. the level of engagement between the stakeholders and the community, the number of volunteers, number of events, their attendance etc. With the successful implementation of these projects, the effect on the environment was positive, i.e. there were numerous environmental benefits such as reduced carbon emissions and improved air quality.

As examples of such initiatives and projects, we can especially emphasize the platforms Halky - which focuses on the financial education of children, Wisdom keepers - which is focused on seniors, the HALK-ECO platform - through which numerous events were organized, such as Skopje runs 10k and the bike race Halk Velo Green.

In addition, the bank has supported numerous events and projects related to sports, education, culture and the environment. An example for this type of events and initiatives are the international festival for literatire and illustrations for children and youth "Litera", the international film camera festival "Manaki Brothers", the Ohrid film festival, support for the ZOO etc. Also, for the regions hit by the disastrous earthquakes in Turkiye, Halk Bank provided a donation of EUR 500,000.

In what ways does the bank prioritize employee satisfaction? Are there unique programs or benefits for employee satisfaction which you may emphasize? How does the bank measure the success of its initiatives for employee wellbeing?

One of the main priorities of Halk Bank is employee satisfaction and wellbeing which are nurtured through various employee engagement programs. These programs are aimed at increasing motivation, strengthening morale and retaining top talent. There are several ways through which Halk Bank measures its employees' satisfaction. One of them is by conducting regular surveys with which the needs and preferences of its employees can be better understood, so that the Bank can adapt its strategy to fulfill its employee expectations. In addition, two-way communication is promoted, which encourages open communication between employees and the management which assists in building trust and stimulating the sense of belonging.

Halk Bank has implemented an appropriate system for hearing the voice of its employees through which it receives feedback and recommendations from employees. This system helps to identify the areas which require improvement, but also to send a clear message that the bank respects the opinion of its employees. Other initiatives in this context are public recognition of employee achievements, organizing recreational activities such as sporting events, communal weekends for better bondage of employees and their identification with the bank. In this context, we must mention the regular rewards for all employees, while preserving the system of justness, regular salary adjustments, private health insurance for employees and their family members etc.

One of the main premises of Halk Bank is focusing on investment value rather than on monitoring the return on investment. By focusing on investment value, the non-financial benefits from initiatives are measured, such as satisfaction, loyalty and employee engagement. Employee wellbeing is a growing key factor in the "S" segment of ESG policies, bearing in mind that the physical and mental wellbeing of employees has a direct impact on business performances and client satisfaction. Apart from that, by implementing the ESG strategy, Halk Bank continues to declare its dedication to the "greater good", by which it becomes a more attractive place for current and new employees which strive toward having a sense of "mission" in their job. In short, Halk Bank continues to invest in its human potential as one of the main premises for implementation of a high quality ESG strategy.

How does the bank ensure fair and ethical treatment of its clients, i.e. are there any measures and activities intended for protecting the interests of its clients and improving their experience in working with the bank? Can you share examples of client-facing initiatives that the bank has implemented in this regard?

Part of the corporate strategy of Halk Bank is providing fair and ethical treatment to its clients, which is ensured by taking measures and activities towards protecting their interests, as well as improving their experience in working with the bank. One of the measures is equal and just treatment of clients, i.e. a result-based system designed to ensure fairness for all clients during its operation. Halk Bank has geared its products and services towards ensuring a simple and fair model for cooperation with clients, and the products and services are communicated in a transparent and easily understandable manner.
Based on this, Halk Bank creates a perception of a partner who in his corporate culture adheres to fair and equal treatment of all clients. With these measures and initiatives, the bank not only protects client interests, but at the same time improves their experience in working with the bank. The people deserving the credit for the success of this strategy are all the employees that understand the importance of client focus and who tend to improve it every day,

For these purposes, the bank alots a share of its budget which is used for continuous investment in its employees, their additional education, market research, as well as gathering and processing of relevant data. Through all of this, a culture of client orientation and focus was created, whose importance is understood by all employees, and they constantly strive to improve it. With investment in its employees, the goal of better understanding the needs of clients was achieved. The starting point for defining the bank's products are client needs and experiences, as well as how and when they need a certain product or service.

There are multiple benefits from implementing the ESG strategy at Halk Bank. The starting point was to better understand and manage the climate challenges that we all face. However, recognizing the key role of the financial sector in improving the resilience of society as a whole, was also a significant factor which just contributed to strengthening the relationships of the bank with all stakeholders, including employees, clients and investors. Banks as socially responsible institutions not only have the need, but also the obligation to implement an ESG strategy in their everyday business operations.

IV

UNDERSTANDING GOVERNANCE (G) IN ESG

Fostering Responsible Leadership

Article by
Ms. Natasha Kostovska
Senior Manager at Grant Thornton, North Macedonia

In today's ever-changing business environment, activities related to the environment, social issues, and governance (ESG) are becoming increasingly important and critical factors for businesses in their efforts to create sustainable business models. While the "E" (Environmental) and "S" (Social) aspects focus on environmental and social issues, "G" (Governance) pertains to matters related to governance within a company.

When analyzing the issues related to the ESG concept, governance often receives less attention compared to the other elements, "E" and "S," which is fundamentally a misguided practice. This is because behind every failure to meet environmental or social aspects lies inadequate and ineffective corporate governance. In fact, poor corporate governance practices in the past have been shown to be the cause of some of the biggest corporate scandals.

Therefore, the aspect of governance is considered a foundation for establishing a comprehensive corporate approach to responsible and sustainable business practices. Governance forms the pillar of ESG, influencing how companies operate, make decisions, and impact society and the environment.

Specifically, governance within the scope of ESG refers to the systems, processes, and structures that shape the decision-making process within an organization. Governance concerns the governance factors in decision-making, from crafting policies within the company to the allocation of rights and responsibilities among different stakeholders within the company, including the board of directors, executives, shareholders, and other affected parties.

Transparency, responsible governance, and ethical behavior are the essential critical components for ensuring effective governance. Transparency is the essence of governance in ESG. Companies dedicated to responsible governance proactively disclose relevant information to all stakeholders, including investors, employees, consumers, and the public. The principle of accountability involves establishing clear roles, responsibilities, and procedures to ensure that leadership acts in the best interest of all stakeholders, rather than solely focusing on short-term financial gains. Companies with strong governance frameworks have well-defined ethical codes and conduct that guide the behavior of employees and prevent unethical practices, including a zero-tolerance approach to corruption, bribery, and other illegal activities.

By prioritizing good governance practices, companies can build trust, maintain their reputation, attract responsible investors, establish strong, long-lasting relationships with customers and partners, and contribute to a sustainable and fair future. Indeed, good governance is of essential importance for long-term success. When an organization has adequate governance, there is a higher likelihood of making sound decisions, retaining the trust of its stakeholders, and creating added value for the company. On the other hand, companies with inadequate corporate governance are more likely to face financial losses, reputation damage, and regulatory violations.

Regulators, investors, clients, and employees are increasingly interested in organizations with strong ESG values and practices, including good corporate governance, transparency, and effective risk management. Research has shown that companies with strong ESG performance outperform their competitors. Companies stand to gain significant benefits by prioritizing good governance as part of their ESG strategy. By incorporating information related to company governance into corporate reports, information about governance practices is disclosed, similar to how insights are provided into environmental and social factors that are integral to the company's business model.

Part of the information related to governance practices within the ESG concept involves information about the roles of administrative, management, and supervisory bodies of the company in relation to sustainability, their composition, as well as their expertise and skills in fulfilling that role or their approach with such expertise and skills. Presenting this information is already a part of regulatory pressures imposed in line with European Union regulations, but it's also in line with the requirements set by the Macedonian Stock Exchange. Furthermore, it's significant to include in companies' annual reports the key characteristics of internal control systems and risk management. Additionally, companies should include information about their activities related to data protection, business ethics, and corporate culture, including information about the company's anti-corruption policy, human rights policy, and information about inclusion and diversity within the company's bodies. Responsible governance also extends to shareholder relations, encouraging their active engagement, as owners, to influence significant decisions and demand accountability from management.

However, while corporate governance is of great importance for every company, it's important to emphasize that each industry faces specific demands and challenges. Each company must analyze the requirements of its industry to determine where to prioritize. Banks, airlines, and mining companies, for example, face different sets of corporate governance challenges.

Embracing governance principles within the ESG framework provides a strategic advantage in the rapidly changing business landscape. Responsible corporate governance is vital for the long-term success of a company. Companies with strong and effective corporate governance practices promote sustainable, compliant with relevant regulations and ethical business practices, and benefit from increased value and positive financial results.

Nurturing Sustainable Decision-Making through Corporate Governance

Interview with

Ms. Aleksandra Ivanovska

General Manager, North Macedonia & Kosovo Roche Macedonia

At Roche, ambition lies not only in transforming healthcare, but also in their contributions to environmental protection, supply chain sustainability, social commitment, and philanthropy. Their corporate governance principles focus on sustainable value creation and prescribe a culture that recognizes standards of good corporate governance and policy of transparent communication. The governance structure embraces a decentralized model, empowering employees to integrate sustainability into their roles. Roche's multifaceted approach intertwines ethical governance, transparent reporting, and a commitment to innovation, embodying its overarching goal of improving lives and advancing medical knowledge on a global scale.

Can you provide an overview of Roche's ESG strategy and how it aligns with the company's long-term vision and commitment to sustainable business practices? What does ESG mean to you and how does your ESG strategy operate in practice?

Our purpose is to do now what patients need next. How we identify and meet those needs – what we do every day – must be sustainable if we are to succeed. It is why sustainability is built into our business strategy and part of everyone's job at Roche. Our approach is holistic and integrates the three dimensions of sustainability:

- **Society:** how we contribute to a better tomorrow for everyone
- **Environment:** how we minimize our impact on nature
- **Economy:** how we invest in medical advances, create jobs, and ensure livelihoods

We at Roche Macedonia focus on implementing sustainability initiatives in order to reduce our carbon footprint, improve working conditions for employees and prioritize diversity and inclusion in hiring and promotion practices.

We believe that innovative solutions are essential to achieving our sustainability goals and strive to create a workplace that encourages creativity and collaboration among local and global functions. Indeed, innovation requires an environment of collaboration and mutual trust where we know it is safe to bring all our knowledge and ideas to work and to challenge, think differently, and speak up. Creating this space is a shared responsibility requiring all of us to work side by side as advocates and allies.

At Roche, we are dedicated to creating long-term value for people by providing high-quality healthcare products and services that improve lives. We foster social stewardship and strive to operate in a responsible and sustainable manner that positively impacts the world around us. Our sourcing practices ensure that our products are made in a responsible and environmentally friendly manner. We respect and support the human rights of every person we reach and ensure they are rigorously embedded into every aspect of our business.

By fostering social stewardship, not only do we provide high-quality jobs and contribute to economic development, but we also listen to and engage with the communities in which we operate. Therefore, our effort to create sustainable social value goes beyond healthcare. We are dedicated to making a lasting impact by building stronger and healthier communities.

How do you monitor and measure the implementation of ESG components and compile the reports? What practices, policies, benefits, protection, and activities do you have in place to ensure positive and fair relations and practices with employees for their safety and prevention?

Our reporting follows the GRI, UN Global Compact and European Chemical Industry Council's Responsible Care Reporting Guidelines. We track our performance against key financial and non-financial indicators, these are grouped under our main areas of engagement: social, environmental, and economic impact. Our staff bonus scheme is linked to our sustainability performance. Our Annual Report includes our non-financial performance. Roche has been ranked as one of the top three most sustainable healthcare companies in the Dow Jones Sustainability Indices for 14 years running, and in 10th place in the Access to Medicine 2022 Index, reflecting efforts to expand healthcare in low- to middle-income countries.

We are committed to promoting mutual respect, trust, and integrity. We believe each employee is entitled to fair, courteous, and dignified treatment during the hiring process, while employed, and at the end of employment. Roche takes appropriate measures to ensure protection of employees' rights within the company.

For instance, we have a dedicated SHE (Safety, Health & Environment) officer that takes care of all main pillars connected to our employees' health and wellbeing. This includes a yearly update of the Office Pandemic Plan, which ensures that we can support all our employees and their closest family members with protective gear, diagnostics/rapid tests and antivirals if another pandemic hits.

Furthermore, when choosing an office, we have very high standards in line with EU/Swiss regulations (HVAC system, light, air quality, entrance security etc.). We ensure everyone understands the risks and is provided with adequate instructions, training, and appropriate protective equipment. We consult our employees and encourage them to speak up when they have safety, welfare, or health concerns.

Furthermore, Roche takes care to ensure that the behavior of its business partners complies with applicable laws, regulations, industry codes and contractual terms, as well as with generally accepted sustainability standards, such as the protection of human rights, safety and environment, prohibition of child or forced labor, and anti-corruption. The company expects its business partners to respect the confidentiality of Roche's data, information and especially trade secrets, and to take appropriate measures to maintain confidentiality and to protect against disclosure and misappropriation.

Working conditions for partners and collaborators along the supply chain are an important aspect of ESG. Companies may implement policies and practices to promote safe and fair working conditions for all workers, including those in the supply chain. To manage relationships with the local community, we engage in community outreach programs and initiatives that promote social good. This can include supporting local businesses, donating to local charities, and participating in community development projects.

Effective management of relationships with supply chain partners and local communities requires ongoing engagement and communication. We conduct regular assessments to identify risks and opportunities related to their operations and supply chain, and work to address any identified concerns. By prioritizing social and environmental responsibility in their operations and relationships with stakeholders, we can build trust and create long-term value for all stakeholders involved.

How is corporate governance integrated into Roche's overall ESG strategy and how does this integration influence decision-making across various business areas? Could you provide an overview of Roche's governance structure and how it facilitates the coordination and implementation of sustainability initiatives throughout the company?

To reach our environmental, social and governance goals, we need broad stakeholder engagement. No single department is responsible for managing sustainability, but all employees are encouraged to embed sustainability into their work.

As sustainability is built into our business strategy, a strong commitment from all business areas and senior management is reflected in our sustainability governance structure:

- The Corporate Governance and Sustainability Committee of the Board of Directors (BoD) is responsible and accountable for governing sustainability at the Board of Directors level. It supervises and provides advice on the sustainability strategy.

- The Corporate Executive Committee (CEC) is responsible and accountable for the overall strategy of Roche. It has delegated the responsibility for establishing, managing, and coordinating the implementation of the sustainability strategy to the Corporate Sustainability Steering Committee and appoints its members.

- The Corporate Sustainability Steering Committee sets the sustainability strategy and monitors its implementation.

- The Corporate Sustainability Operations Committee is responsible for implementing and advancing our sustainability agenda and reporting on the objectives and progress towards these objectives across all relevant global and affiliate functions that make up our global sustainability network.

- The Global Sustainability Network contributes to the sustainability agenda and delivers on the objectives in cross-functional and cross-divisional working groups.

In recent years, Roche has undergone a big internal transformation, moving from a traditional hierarchy-based, decision-making organization towards a flatter organization with a decentralized model. This means that each employee is empowered to take initiative and make decisions, and to take responsibility. In this new model, sustainability is implemented locally, answering local needs, and meeting local expectations, and is the responsibility of local management teams. Ultimately, sustainability is part of everyone's job at Roche.

Our approach to sustainability is incorporated in the internal rules and procedures. As one of the world's largest healthcare companies, Roche takes its obligation to meet the highest standards of business ethics and integrity very seriously. Meeting those standards is the responsibility of every employee. Our standards of business integrity are set forth in our Code of Conduct, which includes Corporate Principles. To further promote and support a shared understanding, Roche has implemented numerous policies, directives, position statements and guidelines that apply across the Group.

For instance, all employees working with government officials are expected to act in a legal and transparent way, complying with all applicable laws and regulations, as well as with the standards set out in our Good Practice Guidelines on Working with Government Officials. These Guidelines articulate a comprehensive framework that outlines the foundational principles for fostering proactive, honest, transparent, responsible, and sustainable dialogue and engagement between government officials and the private sector. Recognizing that the interplay between the public sector and the corporate sector is important for advancing the regulatory framework, the principles emphasize ethical conduct, transparency, and respect for independence. Prohibiting bribery and improper influence, the Guidelines stress accurate representation, proper reporting of contributions, and conditional acceptance of symbolic gifts in compliance with laws and local customs.

V

ESG RELEVANCE

EU ESG Regulation & Potential Effects on Macedonian Companies

Article by
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EU companies are obliged to comply with the enhanced obligations imposed by the ESG regulation. The efforts that have to be invested in order for companies to be classified and adjusted to the definition of "sustainable businesses" and to be recognized as such by investors in the EU market, pose by themselves, a major challenge.

Rather than organizations simply meeting legal obligations, the EU is actively engaged in the development of legislative instruments and mechanisms to ensure an efficient implementation of the ESG regulation.

Prior to North Macedonia's formal EU accession, it is important to highlight the impact that proposed amendments to the EU's ESG Regulation may have on Macedonian associations. The article will provide a brief summary of the most significant proposed amendments to the EU's ESG Regulation that are anticipated to have an effect on Macedonian associations.

CARBON BORDER ADJUSTMENT MECHANISM

The EU has a clearly strong approach for combating climate change, and as a result, it sets ambitious climate policies that include industrial decarbonization.

Industrial decarbonization essentially entails a reduction in CO2 emissions through a variety of methods. One of these methods is the imposition of additional taxes on companies that emit CO2 and are considered environmental polluters.

By pursuing industrial decarbonization, production, expenditure, and investment decisions in EU territory are directly impacted.

In light of this, it can be easily concluded that companies registered in the EU and are classified in the carbon-intensive industry would be incentivized to relocate their operations to counties where this would not impose a financial burden on their operations.

This is the reason why the European Commission has submitted a proposal for the adoption of a regulation for implementing the Carbon Border Adjustment Mechanism – CBAM, which would protect against carbon leakage, i.e., it must prevent or reduce the movement of carbon-intensive financial activities from the EU into third countries such as North Macedonia. Regarding its implementation, this regulation was adopted on August 17th, 2023. The transitional phase is running from October 1st, 2023, until the end of 2025, and after that it will be fully applicable on January 1st, 2026.

This regulation will primarily be applied to companies in five sectors: energy, steel and iron, fertilizers, aluminum, and cement (CBAM products), but its application could be expanded to various other industries. CBAM is a measure that guarantees that for CBAM products imported into the EU, a fee will be paid for the embedded carbon emissions similar to the fee paid by EU producers in accordance with the EU's Emissions Trading System's requests (EU ETS).

The payment is planned to be conducted by purchasing CBAM certificates. The certificate fee will be calculated depending on the average weekly auction fee of the emission permits that are traded by EU ETS. If importers on the EU market can prove that a fee was paid for carbon emissions in the country of origin (such as North Macedonia), the number of required CBAM certificates can be reduced by taking into account the amounts paid for carbon emissions in the non-EU country, as each country has its own carbon emission fees.

After the adoption of the regulation, the EU will initiate discussions with third countries whose trade may be impacted by these measures. Given the inevitability of the carbon emission fee, North Macedonia should carefully consider implementing a system that would retain this capital within the country, with the goal of using it for decarbonization of the country and assisting associations in their climate and environmental transitions.

Regarding the effects of this mechanism on the private sector in North Macedonia, each local association that exports to the EU and operates in any of the concerned sectors will be directly impacted. This signals the need for immediate preparations beginning with the implementation of mechanisms for carbon emission calculations resulting from the operations of these associations and the development of strategies and activities for reducing carbon emissions, to avoid payment of higher fees in accordance with the CBAM mechanism.

DIRECTIVE ON CORPORATE SUSTAINABILITY DUE DILIGENCE

Over time, it became apparent that the regulation with which the EU set the ESG goals and the mechanisms for achieving them are not sufficient tools for the

transition process whose prime goal is achieving green economy.

The third component identified as crucial for achieving a green economy in the EU and meeting the UN's sustainable development goals is "the behavior of companies".

Considering that the initiative to take measures on a voluntary basis did not result in significant improvements, the European Commission has decided that a new regulation is required within the EU to set standards for the businesses' behavior, but this time as legal requirements.

Therefore, in February 2022, the European Commission developed the Proposal for Directive on Corporate Sustainability Due Diligence, which will be used to request from companies to identify and prevent the adverse effects on the environment and human rights that have resulted from their business activities as well as the business activities of other companies in their supply chain.

In addition to large companies and companies registered in "highly risky" sectors in the EU, this Directive range also includes non-EU companies with a net turnover of more than 150 million EUR in the EU or a net turnover of 40 to 150 million EUR in the EU, of which at least 50% have been generated from the "highly risky" sector (for e.g., textile, agriculture, mining of mineral resources).

According to the most recent analyses, the Directive would apply to approximately 4,000 companies with headquarters outside of the EU, and they would be required to assign an EU-based representative for communication with the EU supervisory agencies. Therefore, the directive would apply to all associations in North Macedonia that meet the aforementioned criteria.

It is crucial to emphasize that although small and medium-sized businesses would be exempt from the due diligence requirements outlined in the Directive, it is obvious that if they are part of the supply chain of the affected corporations, they would also bear the burden of this Directive. This is due to the fact that the affected companies will be required to cooperate exclusively with companies that meet the standards for environmental protection and human rights.

Based on the principle of "efficiency, proportionality, and diversion", the Directive also includes sanctions for companies that won't adhere to the established obligations and fines based on the company's profits can be imposed.

The Directive is expected to introduce a new regime of civil liability, in such a way that companies will be liable for damages if their failure to fulfil the obligation of mandatory due diligence results in damage. This may lead to an increase in environmental and human rights litigation and improve the opportunities for legal action for potential victims.

Inevitably, this Directive's proposal marks the beginning of the shift from "soft law" to "mandatory (hard) law," to which companies must pay close attention and begin adapting their operations in order to avoid noncompliance and, more importantly, unintended consequences for their operations.

CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

EU's efforts to impose transparency on companies regarding their contribution to corporate sustainability have already been transposed in the Directive for non-financial reporting that dates from 2014. Based on this Directive, the publicly traded major companies headquartered in the EU are obliged to disclose information about environmental and social issues, and employees' treatment.

However, this Directive does not set standards about the way that the reporting of these issues should be conducted, which prevents investors and other stakeholders from easily analyzing, comparing, and verifying the publicly disclosed information.

To address this inconsistency, the European Commission in April 2021 created a new proposal for Corporate Sustainability Reporting Directive, which stipulates that companies will have to publish relevant sustainability information, based on sustainability reporting standards. These standards entered into force on January 5th, 2023, where first companies will have to apply the new rules for the first time in the 2024 financial year, for reports published in 2025.
According to the standards, the sustainability report must be included in the annual report on the company's operations, be subject to audit, provide detailed information about the business development and results, and include data on the effects of the company's operations on people and the environment. The report will also disclose the company's objectives and the progress that has been made toward achieving them.

The European Commission has broadened the scope of businesses that will be directly impacted by this proposal-Directive so now it covers:

- all large businesses with 250 or more employees, regardless of whether they are listed on the stock exchange, and which have a turnover of 40 million euros; and
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- all listed small and medium-sized businesses on European regulated markets.

All companies and subsidiaries that are established in the EU by Macedonian companies and meet the established criteria will be subject to the reporting requirement. The same rules will apply to all Macedonian businesses, regardless of size, that list their shares on European stock exchanges.

Relevance of Data Protection for ESG

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In a world driven by technology, personal data has become a coveted, valuable asset. The World Economic Forum argued that personal data "is generating a new wave of opportunity for economic and societal value creation". Companies rely on collecting and processing data of people they interact with in order to provide a better product or a more efficient service. By collecting data, companies gain insight on the habits of consumers, which helps them monetize their business models and increase profits.

While generating high profits is still in the focus of businesses, there is an increasing trend of corporate and social responsibility. Consumers and investors alike seem to gravitate towards companies that have a high ESG (Environmental, Social and Governance) score. A successful ESG score affects the social and community image of a company, and further influences its financial performance.
The manner in which companies protect the personal data of their consumers has become an important element when considering the ESG score. The notorious Facebook-Cambridge Analytica scandal changed the landscape of how we perceive data privacy forever. For the first time in recent history, the world became aware of the fact that companies that have access to your data can easily dispose of it, going as far as to sell the personal data of their customers. Furthermore, a recent survey has found that cybersecurity is a number two concern of investors when choosing where to invest.

North Macedonia is slowly but surely jumping on the bandwagon of implementing ESG. At the beginning of 2022, the Stock Exchange of North Macedonia, with the help of EBRD, published the first ESG reporting guidelines for listed companies. It is expected that more companies from the private sector will recognize the importance of ESG and sustainability reporting.

ENVIRONMENT

In a world where climate change is a hot (no pun intended) topic, it is especially important for companies to be mindful of the use of natural resources and the reduction of their carbon footprint. During their course of work, companies accumulate a vast amount of data, which is stored in both paper and digital versions. While in recent years the transition from paper to digital storage has increased, this does not necessarily mean reduction of the carbon footprint. On the contrary, the more data is collected, the more storage space is needed. The use of server space, hard drives and other electronic devices designed to store data impacts the environment more than we can imagine. These electronics use a lot of energy, a large part of which is generated by using fossil fuels, especially in developing countries such as North Macedonia. Furthermore, the disposal of these electronic devices creates electronic waste – or e-waste, which more often than not is disposed of improperly, thus becoming harmful to the environment.

This is where data minimization comes into play. As one of the principles of data protection, it requires for personal data to be adequate, relevant and limited to what is necessary in relation to the purposes for which personal data is processed. The data minimization principle was implemented with the General Data Protection Regulation ("GDPR") within the EU. However, many countries aligning their legislation with the GDPR included this within their data protection laws. One such example is the Law on Personal Data Protection of North Macedonia ("DP Law"), which also poses data minimization as one of the postulates for data protection.

Considering the above, companies should strive to keep as less data as possible – minding that the data retained is necessary for fulfilling the purposes for which it is processed. This would lead to boosting the ESG score of companies, as well as protecting the environment.

SOCIAL

The social aspect of ESG poses the question of how companies treat the people they interact with. This encompasses a wide range of individuals, from employees, customers, suppliers and the community of which the company is part. And privacy plays a key role in social measurement.

Privacy, or the right to a private life, is considered a fundamental human right. Many countries around the world (including North Macedonia) have protected this right with the highest legal act – the Constitution. In the context of data protection, any information relating to an identified or identifiable natural person is considered as personal data and as such is protected with relevant legislation. In North Macedonia, personal data is protected primarily with the DP Law.

A recent study monitoring the iOS update 14.5, which requires app developers to request permission to track their users beyond the app in use, has shown that only 15% of active app users worldwide allow app tracking. This means that, when presented with a choice, data subjects will choose to keep their data private. Companies should take this into consideration since they

collect numerous personal data daily and have a social responsibility to protect the information and privacy of data subjects. This involves implementing procedures and adopting acts, as well as undertaking technical and organizational measures which undoubtedly guarantee that the company handles the collected personal data with utmost care.

Additionally, companies should be transparent when collecting and processing personal data. This means giving their data subjects complete information on what types of personal data are processed, the purposes for such processing, as well as granting them rights, among others, to access, erase or rectify their personal data. Data minimization should also be taken into consideration – companies should collect only the personal data which is absolutely necessary for achieving their purposes.
A certain level of trust is established between customers and companies when the former share their data with the latter. Targeting customers with ads, or any sort of direct marketing should be done only after obtaining prior consent. Companies should be extremely careful with handling personal data of minors and ensure that their privacy is well protected.

Giving data subjects greater control over their data strengthens the trust and showcases that the company cares more about its people.

GOVERNANCE

The governance factor deals with how a company remains compliant with the standards and laws, which among other, regulate the collection and processing of personal data. Adopting relevant policies and putting security protocols in place lowers the risk of potential data breaches or any harm to the confidentiality and integrity of personal data collected and processed by the company. A 2019 report found that among notable consequence of data breaches is the decrease of stock prices in publicly traded companies. An average drop of 7.5% of stock value has been reported in companies that have suffered data breaches, causing billion-dollar losses per company. This has led to irreparable damages to both companies and their stockholders.

And if this does not sound scary enough, another great incentive to remain compliant with regulatory requirements are the high fines imposed by data protection legislation. For example, the DP Law imposes severe penalties, including fines of up to 2% and up to 4% of the total annual income of the company from the previous financial year per misdemeanor.

Having in mind the above, companies should incorporate practices which safeguard the way in which personal data is handled and ensure regular monitoring and audit of data management practices. Also, it is almost always advisable to appoint a data protection officer ("DPO"). The DPO will serve not only as a contact point between the company and data subjects, but also as implementor of policies and standards to ensure compliance with data protection regulations. The adoption of a plan for prevention, reaction and recovery in case of incidents could also be a useful tool for providing quick reaction in case a data breach occurs.

WHAT'S NEXT?

Considering the rapid growth of the importance of ESG scores and the role they play in attracting investments, companies should implement detailed privacy and security policies. This will not only help to boost the ESG score, but also instill trust both in consumers and investors, thus making companies more attractive on the market.

Abbreviations and Acronyms

CBAM
Carbon Border Adjustment Mechanism

CSRD
Corporate Sustainability Reporting Directive

DP Law
(Personal) Data Protection Law

DPO
(Personal) Data Protection Officer

EBRD
European Bank for Reconstruction and Development

ESG
Environmental, Social and Governance

ETS
Emissions Trading System

EU
European Union

GDPR
General Data Protection Regulation

iOS
iPhone Operating System

About AmCham North Macedonia

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