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BUILDING A SUSTAINABLE FUTURE: ESG BUSINESS HANDBOOK

HOW ENVIRONMENTAL, SOCIAL AND GOVERNANCE
STANDARDS CAN BENEFIT YOUR BUSINESS



Building a Sustainable Future: ESG Business Handbook

How Environmental, Social
and Governance Standards
Can Benefit Your Business

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1. Acknowledgments

The “Building a Sustainable Future: ESG Business Handbook” was produced as part of the AIRE Centre’s **Environmental, Social and Governance (ESG) standards – introduction for the businesses** project, with financial support of the United Nations Development Programme in Bosnia and Herzegovina. The handbook was produced by the AIRE Centre team led by Biljana Braithwaite (Western Balkans Programme Director) and Sabina Đapo (Western Balkans Programme Manager). The authors of the handbook are Nevena Kostić (ESG Expert) and Amina Hujdur (Communications Specialist), while Elma Veledar Arifagić (Attorney at Law at [dmb partners Sarajevo](#)) made a special contribution in providing an overview of the domestic legal framework in relation to this topic.

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2. Welcome to the ESG Business Handbook!

The objective of this handbook is to inform the businesses in Bosnia and Herzegovina (BiH) about environmental, social, and governance (ESG) standards and the United Nations (UN) [Sustainable Development Goals](#) (SDGs). It is a valuable resource containing relevant information and practical advice for businesses and other institutions on how to most effectively implement ESG standards, assess performance and define goals and action plans to contribute to a more sustainable future. As the world faces unprecedented social, environmental, and economic challenges, it has never been more critical that businesses take a more (pro)active role and contribute to alleviating these issues. Companies play a crucial role in shaping the world we live in. By adopting ESG practices and aligning their strategies with the SDGs, they can also become a part of positive human rights and environmental changes and enhance their long-term financial performance. Lastly, this handbook is intended for businesses of all sizes and sectors, with an emphasis on small and medium enterprises, and we encourage them to use it to drive positive change.

This handbook will provide you with relevant information to get you started on your ESG journey. The document begins with a summary of the ESG standards evolution, looking at the key historical milestones that led to their introduction and rising impact. It also provides an overview of the UN conventions and instruments concerning sustainability, followed by a more in-depth look into the link between the ESG standards and SDGs, emphasising trends and potential options for ESG standards to contribute to the more robust engagement of the business sector in implementing the SDG objectives. The handbook also provides an overview of European Union (EU) instruments, followed by the current state of legislation and practices in BiH. The final section of this document provides clear and achievable recommendations and practical advice for implementing ESG

standards, covering topics such as materiality assessment, gap analysis, defining ESG goals and indicators, formulating ESG strategy as well as recognising risks and opportunities.

As some companies in BiH are already pioneering sustainable development in BiH, this handbook highlights positive examples of practices implemented by past winners of the [United Nations Development Programme \(UNDP\) SDG Business Pioneers Award in BiH.](#)

There is no doubt that more and more businesses are no longer only expected to perform well but also to “do good” and “do no harm”. No matter the size, the businesses have the duty to respond and contribute to the solution for the key regional and global challenges such as climate change (and its implications evident in the rise in sea level, increased risks of droughts and floods, and threats to biodiversity), lack of equity and inclusion, corruption, etc.

Furthermore, this is becoming a core issue of investors’ and consumers’ behaviour, leading to their decisions to consciously only do business with those companies whose practices align with their values.

3. What are ESG standards, and why do you need them for your business?

ESG standards evaluate businesses' sustainability and impact on environmental, social and governance issues far beyond their financial performance. Some of the standards are imposed by laws and regulations of the country where the business operates, and others result from stakeholders' expectations and investors' pressure due to growing concerns regarding human rights and environmental issues. But first, we need to break down and explain what it stands for.



Environmental standards concern businesses' impact on the environment through their consumption of energy and raw materials, i.e., the resources they need to operate. These standards cover many factors, including how businesses contribute to climate change, pollution, waste, natural resource depletion, etc. For instance, business strategies

to reduce negative environmental impact can involve goals of reducing greenhouse gas emissions, investing in renewable energy, and promoting the use of sustainable resources. On the other hand, every business needs energy and resources and is affected by the environment's state, including floods, droughts, and biodiversity devastation.



Social standards concern the impact businesses make on society. Every company operates within a broader, diverse community, so its operations and social issues are deeply intertwined. These factors are related to labour and human rights, inclusion, equality, and community development.

For instance, positive social impacts can be seen within businesses that promote workplace diversity and inclusion, ensure fair labour practices throughout their supply chains, and engage with local communities.



Governance standards concern practices and procedures adopted and implemented within a business to ensure it follows the laws and standards set out by its relevant stakeholders. These standards are measures by actions business takes to ensure fair and transparent management, information disclosure, prevention of corruption, enabling diversity, and creating equal opportunity (focusing on decision-making positions held by historically marginalised categories of society), transparent decision-making processes, cybersecurity, privacy, etc.

For a long time, these standards were viewed as a “nice to have” ambition businesses should strive for. Companies now stand to gain or lose a lot, depending on whether they successfully incorporate ESG standards and practices. Multiple surveys show that more than 80% of investors are looking into the ESG standards of a company when considering potential investments. A growing body of research shows that sustainable investment funds, on average, over the long term, achieve comparable or even better financial returns than conventional investments. Businesses that consider ESG standards are also more likely to identify and mitigate risks associated with environmental, social, and governance issues and are also more likely to innovate and develop new products and services to address these concerns. Investors in the region and BiH are starting to push this agenda forward as well, focusing on the business case for the ESG and its impact on the environment and society.

Furthermore, customers, employees, and other stakeholders expect businesses to contribute to the overall effort due to growing awareness of sustainability importance. For instance, recent research shows that consumers are shifting their spending toward products with ESG-related labels and are even likely to spend more for such products. An increasing number of people, especially newer generations, are likely to base their decisions on whether they will invest, work for, or buy services or products from a business based on its practices and values. The importance of ESG standards will likely continue to grow, and those businesses that fall behind will stay behind. The ESG movement has already resulted in tangible steps evident in legislation imposing binding obligations on corporate actors regarding human rights and environmental standards. In some countries, such as those in the EU, they have already become mandated.

Businesses should care to include ESG standards when preparing strategies in order to:

- Respond to growing investor pressure.
- Meet stakeholder expectations.
- Get ahead by contributing to innovation.
- Comply with relevant legislation.
- Ensure long-term sustainability.

There is an urgent need to examine how ESG standards are operationalised in BiH and the whole Western Balkans. These jurisdictions face ongoing pressure to harmonise their respective legislation with the EU acquis. In addition, the recently adopted Green Agenda for the Western Balkans, Carbon Border Adjustment Mechanism, and Corporate Sustainability Reporting Directive will significantly impact businesses in the region. Due to high unemployment levels, attracting foreign investment has been prioritised as a matter of state policy. Finally, the numerous examples of public scandals and challenges made on environmental and human rights grounds in the region are a stark reminder that insufficient attention to the potential negative impacts of business endeavours can result in social upheaval and political instability. At the same time, the presence of major multinational investors in the region who voluntarily subscribe to best practices and further EU-conditioned investment opens the space for broader integration and implementation of sustainability principles.

In fact, BiH is experiencing an increasing awareness and adoption of ESG standards across its business landscape. However, the level of application varies and is influenced by several factors, including the ownership structure of companies and the regulatory environment. With the country's main economic partners, such as EU countries, and to a lesser extent United States of America (USA) and Asian countries, introducing new regulations impacting businesses, the pressure to adhere to ESG standards is further amplified. Domestically owned companies in BiH are gradually recognising the importance of ESG factors. However, their level of implementation is relatively lower compared to foreign-owned companies. This discrepancy can be attributed to various factors,

as domestically owned companies are more likely to have limited access to resources and expertise, lack of awareness about the potential benefits of ESG integration, and lack of domestic legal frameworks promoting ESG practices. On the other hand, there are multiple reasons why subsidiaries of foreign companies operating in BiH are demonstrating a higher level of ESG implementation, including the influence of the parent company's established ESG policies and practices, adherence to international standards and guidelines, and the pressure to meet the ESG expectations set by their headquarters or home countries.

Want to learn more about how the main economic partners of Western Balkans are already applying ESG standards when conducting business and examples of good and bad practices in this region? Check out [why ESG standards are relevant for Western Balkans](#).

4. Evolution of ESG standards

The evolution of standards for monitoring, influencing, and controlling business's environmental and social impact is heavily intertwined with major historic man-made ecological disasters or social upheavals concerning labour rights. For instance, the Chernobyl nuclear power plant disaster in 1986 immensely raised public awareness of the environmental and social impacts of nuclear power. In the 1970s, a worldwide uprising against the apartheid regime in South Africa led to one of the most prominent examples of selective disinvestment.

Social turmoil surrounding these, and many other similar historical events, had led to a re-evaluation of the role and responsibilities of businesses. This movement challenged the predominant perception at the time that companies must act in their self-interest of only generating monetary profit. It started promoting a different vision of the company's value which can be seen through practices that positively impact its employees, the broader public and the environment.

However, it was not until the relatively recent “wake-up call” embodied in the undeniable devastation of the planet that the organisations, boards, and leaders asked themselves – are we doing enough? Most notably, in 2019, Larry Fink, chief executive officer (CEO) of one of the world's largest investment firms, BlackRock, published [a letter](#) for his shareholders stating that “in today's globally interconnected world, a company must create value for and be valued by its full range of stakeholders to deliver long-term value for its shareholders”. The same year, the Business Roundtable, an association of CEOs of leading companies in the USA, overturned the two-decade old-policy statement that a corporation's principal purpose was maximising shareholder return and adopted the new [Statement on the Purpose of a Corporation](#) stating that “companies should serve not only their shareholders but also deliver value to their customers, invest in employees, deal fairly with suppliers and support the communities in which they operate”.

As public awareness of environmental and human rights issues has grown, ESG standards have gained popularity. They are now increasingly viewed as a necessary, and in some cases even mandated, way of conducting business. Success is no longer considered in isolation from social and environmental sustainability – rather, they are viewed as an interconnected aspect of the long-term success of companies.

Businesses are no longer only expected to perform **well** but also to **do no harm**.

5. From CSR to ESG: Stepping up from voluntary to the regulated action

In the 1970s, following the increasing concerns about the social and environmental impacts of business activities, companies began to publish corporate social responsibility (CSR) reports that evaluate their ethical, environmental, philanthropic and economic implications. Initially, these reports focused on short-term, admirable actions, such as charities, volunteering, and involvement in the community. Furthermore, they were published separately from companies' financial reports, showing how the interconnection between economic performance and external factors pertaining to environmental, social and governance standards was still poorly understood at the time. However, in the late 1990s and early 2000s, as the connection between these two factors began to gain recognition, companies began to be encouraged to incorporate and link their non-financial actions with information concerning their financial results.

As the movement gained momentum, companies began to report on their environmental and social impacts, sharing statistics and other information concerning greenhouse gas emissions, energy consumption, water usage, and employee diversity. However, CSR reporting has also gained a bad reputation for being used by businesses as a “PR tool for greenwashing”. With the emergence and popularisation of ESG standards that covered broader factors beyond CSR reporting, investors and other stakeholders began to use it as a framework for estimating businesses' sustainability and ethical impact. Unlike CSR, ESG strategies publicly define specific goals with quantifiable results. Being quantified and measured, these strategies are formulated to demonstrate a company's actual activities and successes and cannot be easily manipulated.

However, it was not only investors who looked into emerging new trends concerning ESG standards. Countries such as the United Kingdom, Australia,

France, the Netherlands, Germany, and Norway, soon began adopting legislation that imposes binding obligations on corporate actors regarding human rights and environmental standards. For example, both the USA and EU have imposed regulations to limit the emission of greenhouse gases, excessive water usage and other actions that are detrimental to the environment. The Clean Air Act in the USA sets out to regulate industries' air pollution by expanding the authority of the Federal Environmental Protection Agency so that it can take effective action against this problem. The EU's Emissions Trading System introduced a "cap and trade" system, setting out "the cap" on the total amount of certain greenhouse gases that the EU operators can emit and also allowing them to "trade" with one another as needed. European countries have especially been proactive in imposing regulations that concern and promote ESG standards. For instance, France became the first country to introduce mandatory climate change-related reporting for institutional investors, Germany introduced Sustainability Code that provides a framework for reporting non-financial performance, and the Netherlands adopted a Corporate Governance Code with principles and best practices focused on promoting good governance of their companies.

6. ESG investing as a catalyst of sustainable transition

ESG Investing is often referred to as sustainable investing, and it describes the process of looking into environmental, social, and governance factors, alongside financial aspects, when making investment decisions. As previously noted, it is based upon the growing recognition that a company's financial performance is interconnected with environmental and social factors and that sustainable investing decisions will turn a greater profit in the long run. There has been a significant surge in ESG investing around the world. According to research by Bloomberg Intelligence, ESG assets surpassed 35 trillion United States dollars (USD) in 2020, followed by 41 trillion USD in 2022, and may even surpass 50 trillion by 2025.

Research shows that global ESG assets may surpass one-third of all asset holdings globally.

More than 80% of investors consider ESG factors in their investment processes, and 54% of investors believe better ESG practices by companies result in stronger returns/validations over time.

In fact, by considering ESG factors, investors can get a more holistic view of the companies they want to invest in. Consequently, ESG investing can successfully pave the way for businesses to transition into a sustainable future. Firstly, ESG-conscious investors (and consumers) can motivate firms to adopt sustainable practices. Secondly, they can also play a role in addressing social and environmental issues by investing in businesses and encouraging innovation that can positively impact these problems. Lastly, ESG-conscious investors can even strongly advocate for legislative changes promoting sustainable practices, such as transitioning to a low-carbon economy or improved labour standards.

For example, a fast shift is coming to BiH in the world of finance with the introduction of so-called green bonds. The projects financed by the banks will be subjected to strict environmental impact assessments. Some banks with a big presence in the region have stopped financing projects in the field of coal mining, while other fossil technologies have a very low share in their portfolio. Projects focused on the promotion of investment through the implementation of ESG standards are becoming common in the region showing interest of investors to support levelling the playing field.

7. Sustainable Pathways for Bosnia and Herzegovina: UNGC, PRI, SDGs, UNGP and Paris Agreement

BiH is actively engaged in multiple global initiatives focused on sustainability and responsible business practices, and while the implementation of some is already transforming the country, the implementation of others remains lacking. Nevertheless, the UN Global Compact (UNGC), Sustainable Development Goals, Principles for Responsible Investment (PRI), UN Guiding Principles on Business and Human Rights (UNGPR), and the Paris Agreement all play pivotal roles in driving sustainable development, encouraging protection of human rights and responsible corporate citizenship, and addressing environmental challenges in the country.

► The UN Global Compact

The UN Global Compact is the largest corporate sustainability initiative, consisting of ten principles aimed at promoting responsible corporate citizenship regarding human rights, labour, environment, and anti-corruption. This Initiative has gained considerable attention. Currently, it is joined by more than 16,000 business actors and 3,800 non-business actors helping alleviate extreme poverty, address labour issues, and reduce environmental risks. The UN Global Compact is based on the idea that what is good for society is also good for business, recognising that corporate success is interdependent with stable economies and healthy, educated, and skilled workforces. Furthermore, it encourages companies to adopt sustainable and socially responsible policies and practices in alignment with the SDGs. At the moment, there are 14 active participants from BiH, consisting mostly of small or medium-sized enterprises and NGOs. Nevertheless, UNDP continues to promote the UN Global Compact, mostly through the application process for the SDG Business Pioneers Award in

BiH, as it gives all companies a “blueprint” for an annual report recognised by the UNGC.

Want to discover how the UN Global Compact supports businesses?
Find out how you can benefit from joining the [Initiative](#).

► **The Principles for Responsible Investment**

The [Principles for Responsible Investment](#) (PRI) is one of the world’s leading proponents of responsible investment, as it supports its global network of investors to incorporate ESG standards into their investment and ownership decisions. This Initiative consists of six principles that guide investors in making responsible investment decisions using ESG standards and provides a framework that makes it easier to determine if their investments are sustainable and if their financial decisions are responsible.

► **Sustainable Development Goals**

Overall UN’s efforts toward creating instruments for joint action of all member states toward sustainability and alleviation of prominent global social and environmental issues are encompassed in the [2030 Agenda for Sustainable Development](#), adopted in 2015. This agenda consists of 17 Sustainable Development Goals to be achieved by the state as well as non-state actors by 2030.

The goals are interconnected and often overlapping, emphasising that environmental, social and economic issues and opportunities are interrelated and can all be considered crucial steps for sustainable development.

The [SDG Framework in Bosnia and Herzegovina](#) is the crucial document for implementing the SDGs, as it outlines the broader development directions for the country, containing guides for strategic planning processes in all decision-making levels of the country, encompassing the state level, as well as the entity level, the Republika Srpska and the Federation of Bosnia and Herzegovina, and



the Brčko District of BiH. This framework serves as a guide for governments at all levels and the society in BiH to define their priorities, measures, and activities according to their competencies, ensuring that their contributions align with the achievement of Agenda 2030.

The development of the SDG Framework was based on a comprehensive situation analysis of sustainable development in the country. This analysis considers key development trends, opportunities, and obstacles, taking into account the country's accession to the EU. Additionally, extensive consultations were conducted with representatives from institutions at all levels of government and socio-economic stakeholders. The SDG Framework in BiH identifies three pathways of sustainable development for the country: Good Governance and

Public Sector Management; Smart Growth; and Society of Equal Opportunities. It also includes two horizontal themes, namely Human Capital for the Future and the “Leave no one behind” Principle.

Within each of these development pathways, specific accelerators and drivers are defined to bring about the desired changes by 2030. This means that the framework establishes the necessary actions and strategies to be implemented to achieve the SDGs. Furthermore, the SDG Framework in BiH aligns with Agenda 2030 and the commitments made by the country. It goes beyond setting broader development directions and also determines concrete targets and indicators to measure progress towards the SDGs. The [Imagine 2030](#) initiative, launched in 2016, facilitates extensive consultations in BiH on Agenda 2030 and the SDGs. Over 5,000 citizens have participated so far, making it the primary tool for advocacy, and raising awareness of the SDGs in the country.

Want to learn how SDGs can create value for your business? Check out the [article](#) on the business case for SDGs.

The private sector plays a vital role in accomplishing the SDGs through their social responsibility, green business, and innovation. It also stands to gain a lot, as research shows that achieving the SDGs is also connected to business success. Furthermore, SDGs are formulated so that there is significant synergy between different goals; for instance, the goal of climate actions is interconnected with goals concerning good health and well-being, clean water and sanitation, affordable and clean energy, sustainable cities and communities, responsible consumption and production, life below water, life on land, etc. Currently, member states are in the process of localisation and implementation of these goals, and the [Sustainable Development Report](#) offers a global assessment of countries' progress towards achieving the SDGs.

SDGs have an estimated [global market potential of around \\$12 trillion](#) for companies.

► The UN Guiding Principles on Business and Human Rights

The United Nations Guiding Principles on Business and Human Rights (UNGP) are a set of guidelines for States and companies to prevent, address and remedy human rights abuses committed in business operations. Guiding Principles rest on three equally important pillars: the States' duty to protect human rights, the corporate responsibility to respect human rights, and the duty of both States and businesses to provide access to remedy for victims of business-related abuses.

In BiH, there are constitutionally guaranteed rights to legal remedies, encompassing not only employees directly affected by human rights violations within companies but also individuals indirectly impacted, such as the local population in areas where business activities take place. Relevant laws in BiH, which will be elaborated in more detail in the letter part of this handbook, cover various aspects of human rights in business, including gender equality, discrimination prohibition, labour and social policies, environmental protection, ownership, public health, anti-corruption measures, and more.

In November 2022, BiH was the first country of the region that took a proactive step towards implementing the UNGP, when the Council of Ministers of BiH adopted the Proposal of Framework Guidelines for Implementation of the UNGP for the period 2021-2025, demonstrating the country's commitment to enhancing human rights protection in the business sector.

► The Paris Agreement

The same year SDGs were adopted, another crucial agreement strived to ignite global action toward combating global warming. Paris Agreement is the first legally binding international treaty concerning climate change, adopted by 195 parties, who agreed to limit the increase in global average temperature to below 2°C or even 1.5°C, peak global emissions as soon as possible, and rapidly reduce them to achieve a balance between emissions and removals by the second half of the century. Implementing this Agreement is embedded in economic and social transformation. Governments agreed to regularly assess and report their collective progress towards the Agreement's long-

term goals and track and report their individual progress through a transparent and accountable system. Since 2020, countries have been submitting their national climate action plans or nationally determined contributions (NDCs). BiH published its first NDC in 2020 and submitted revisions in 2021.

8. ESG and SDG: Connected paths to a sustainable future

The resemblance of the ESG factors to the UN's SDGs is no coincidence. Indeed, ESG is an integral part of SDGs – that is, SDGs identify the objectives, and ESG offers the methods and processes for achieving them. In other words, ESG promotes businesses' role in overall global sustainable development and identifies contributing practices that companies can incorporate into their operations, products, and services. ESG standards represent a lifetime opportunity to bring together SDG goals and new legal and market requirements for businesses and use them as a cohesion factor.

A growing number of companies are considering SDGs when developing business strategies. Even though they are not legally obliged to implement them, businesses are beginning to recognise the long-term benefits of striving for these goals. As it was previously elaborated, the business case for embracing these goals is clear – not only are the companies affected by environmental and social issues, but global sustainability is also in the best interest of their business and companies that do not comply with these goals risk their corporate image, which may turn away existing and new stakeholders (primarily investors and consumers).

While both SDGs and ESG standards aim to achieve long-term sustainable growth, the difference between them is:

SDGs

- Are broader in scope and consist of 17 goals that aim to address global challenges such as poverty, inequality, and climate change by 2030.
- Apply to everyone, including state and non-state actors.
- Are a globally adopted goal framework.

ESG standards

- Represent principles focused on environmental, social and governance impacts of businesses.
- Apply primarily to the business sector, companies, and investors.
- Do not have a standardised global framework.
- Can be viewed as one of the methods and processes for achieving SDGs.

Furthermore, SDGs are attracting the business community's attention as striving for them also has the potential to expand one's business. According to the Business & Sustainable Development Commission report, the SDGs could generate 12 trillion USD in business savings and revenue by 2030 across energy, cities, food and agriculture, and health and well-being goals. The report also estimates that 380 million new jobs will be linked to these four sectors in the next ten or fifteen years. Furthermore, the research shows that compliance with SDG goals also attracts consumers, as Global research by PwC found that 78 percent of customers are more likely to buy the goods and services of companies that had signed up to the SDGs.

Businesses stand to significantly gain from aligning their business strategies with the UN's Sustainable Development Goals and complying with Environmental, Social and Governance standards, such as:

- Better reputation.
- New business opportunities and collaborations.
- Better risk management.
- Attracting investors and consumers.

When it comes to Western Balkans countries, within the 193 UN member states that agreed to the 2030 Development Agenda, at the time of writing, Serbia has the highest ranking and is taking the 35th place, followed by North Macedonia (57th), Bosnia and Herzegovina (59th) and Albania (61st). Montenegro

has the lowest ranking at 86th place. Companies are not obliged to submit SDG reports. However, countries are expected to make them a central element in national and regional sustainability, also reflected in ESG reporting standards and goals. This is to say that ESG reporting can be used for Sustainable Development Goals. As the deadline for their fulfilment is approaching, more and more countries will be looking into how private businesses can contribute to this overall goal.

Do you need a broader overview of the business and human rights regulatory landscape and information on business cases for better compliance with corporate actors' human rights and environmental standards? Check out the publication Business, Human Rights, and the Environment: The Future of Sustainable Business in the Western Balkan.

9. ESG standards and regulatory frameworks: The EU perspective

The main driver of ESG regulation in Europe is the European Union. All the changes happening in the EU are based on the European Green Deal, a major policy shift to make Europe carbon-neutral by 2050. The European Green Deal aims to boost the efficient use of resources by moving to a clean, circular economy and halt climate change, revert biodiversity loss and cut pollution. It outlines investments needed and financing tools available and explains how to ensure a just and inclusive transition. The European Green Deal covers all sectors of the economy, notably transport, energy, agriculture, buildings, and industries such as steel, cement, information, and communications technology (ITC), textiles, and chemicals.

The European Green Deal was approved in 2020. The plan is to review each existing law on its climate merits and introduce new ones.

Several countries have passed or proposed new regulations to improve corporate transparency and accountability around these risks and impacts. e.g., Germany passed a due diligence law that requires companies to divulge ESG risks and impacts in their supply chain.

► **EU Corporate Sustainability Reporting Directive (CSRD)**

The EU Corporate Sustainability Reporting Directive (CSRD) policy requires large companies and public-interest entities operating in the EU to disclose information on their ESG performance annually.

This Directive entered into force in January 2022 and will be integrated into the national laws as an ESG regulation by the end of 2023. EU CSRD aims to improve transparency and accountability around corporate ESG performance. This will help investors and other stakeholders have a better understanding of how these companies are addressing ESG issues so that they can make more informed decisions.

The CSRD is mandatory for the following companies:

- Listed companies.
- Large companies that meet two of these criteria: More than 250 employees, net turnover of more than EUR 40 million, or total assets exceeding EUR 20 million.
- Non-EU companies with at least one subsidiary in the EU and a net turnover of more than EUR 150 million.

By requiring companies to disclose finance-grade information on their ESG performance in their annual reports, the CSRD will improve this data's transparency, credibility, and comparability. This will help investors and other stakeholders make informed decisions about the companies they engage with, channelling more capital toward sustainable businesses and investments. It also facilitates greater corporate accountability by encouraging companies to integrate ESG considerations into their business practices.

CSRD is undoubtedly relevant to companies based in Western Balkans, as it applies to companies registered in third countries whose turnover was generated in the EU. Although small and medium-sized enterprises are not in the direct scope of the Directive, they will nevertheless be covered by its scope if they do business with the companies it covers. As it is the duty of large companies to pass due diligence requirements through their value chain, small and medium-sized enterprises will certainly feel the burden and pressure to adapt and build their operational and financial capacity. For instance, Germany has already **taken steps** in implementing the CSRD/CSDD, which will significantly impact business in BiH.

› **How can companies comply with the EU CSRD?**
What are the ESG disclosure requirements?

To comply with the CSRD, companies must prepare a non-financial statement that includes information on their ESG policies, risks, and results. The specific content will vary depending on the size and nature of the company but could include policies and performance details around:

- Environmental issues include greenhouse gas (GHG) emissions, energy consumption, waste management, and the use of natural resources.
- Social issues include employment practices, working conditions, diversity, health and safety, supply chain management, and community engagement.
- Governance structures and practices include board composition and diversity, executive compensation, and risk management.

Companies will need to follow a “comply or explain” approach, meaning they must disclose the requested ESG information or explain why they cannot do so. In either case, the statement must be approved by the board of directors and included in the annual financial report. It must also be audited by an independent third party to ensure accuracy and credibility.

This means that companies do not have to report on all aspects of the business if they are not related to minimum requirements (e.g., a company that does not generate wastewater in the production process). However, in those cases, companies need to comply with the *report or explain* principle, meaning that if certain elements of sustainability reports are not applicable to the company in question, they need to be clearly explained in sustainability reports.

► EU Sustainable Finance Regulation – EU Taxonomy and SFDR

Along with the CSRD, the EU taxonomy for sustainable activities and Sustainable Finance Disclosure Regulation (SFDR) are all key policies supporting the European Green Deal and EU Action Plan for Financing Sustainable Growth.

They aim to improve private sector transparency and accountability around ESG impacts and risks to promote sustainable economic growth and investment in the EU.

The Taxonomy sets six environmental objectives that companies must meet to be considered sustainable. These include:

- Climate change mitigation: activities that reduce greenhouse gas emissions and help prevent global warming.
- Climate change adaptation: activities that help communities and ecosystems cope with the effects of climate change.
- Sustainable use and protection of water and marine resources: activities that use water and marine resources in a way that is sustainable and protects the environment.
- Transition to a circular economy: activities that help create a more sustainable economy by reducing waste and pollution and increasing the use of recycled materials.
- Pollution prevention and control: activities that reduce pollution and protect human health and the environment.
- Protection and restoration of biodiversity and ecosystems: activities that help preserve and restore the natural world and the plants and animals that live in it.

Non-listed small and medium enterprises (SMEs) are currently exempted from disclosing sustainability information within the EU Taxonomy Regulation. However, experts say that SMEs should still pay attention to the EU Taxonomy because it may affect them in the future. For example, banks and investors may ask SMEs to disclose information about their sustainable activities when they apply for loans or investments.

The EU's Sustainable Finance Disclosure Regulation aims to increase transparency and boost environmental and social responsibility in the finance industry. The SFDR requires banks, insurers, investment firms, and other financial institutions to report their sustainable investment practices to investors in a standardised format so that they can make informed decisions about their investments. It imposes comprehensive ESG disclosure requirements covering a broad range of entity- and product-level metrics.

The SFDR is intended to remove barriers that hinder investors from getting the sustainability data they need to make sound investment choices. The SFDR's three primary objectives are as follows:

- To enhance disclosures so that institutional investors and retail customers can comprehend, compare, and monitor the sustainability features of financial products and organisations.
- To maintain a level playing field inside the EU, ensuring that European enterprises are not subjected to unfair competition from firms outside the EU.
- To counteract the practice of greenwashing as it makes it more difficult for asset managers to “greenwash” their goods; in other words, they cannot just brand a product with an ESG or sustainable label without disclosing how this was accomplished.

Although the SFDR primarily applies to financial institutions operating in the EU (banks, insurers, asset managers, and investment businesses), the non-EU firms will be impacted indirectly due to EU subsidiaries, services offered in the EU, and market pressure.

► **EU Corporate Sustainability Due Diligence (CSDD)**

EU Corporate Sustainability Due Diligence (CSDD) proposes a horizontal framework to foster the contribution of businesses operating in the single market to respect human rights and the environment by:

- establishing a corporate due diligence duty for companies to identify, end, prevent, mitigate, and account for negative ESG impacts in their own operations and value chains.
- introducing duties for directors of EU companies to set up and oversee the implementation of the due diligence process and integrate due diligence into the corporate strategy.

This regulation will affect large EU or non-EU companies active in the EU. Small and medium-sized enterprises, including micro-enterprises, are not in scope but may be impacted as contractors or subcontractors to companies in scope. Companies with an SME business partner must support them in complying with the due diligence measures.

► **EU Carbon Border Adjustment Mechanism (CBAM)**

The CBAM mechanism aims to ensure that imported goods face the same cost of carbon emissions as domestically produced goods. The mechanism's primary aim is to ensure that the imported goods meet the same cost of carbon emissions as domestically produced goods to prevent "carbon leakage".

"Carbon leakage" occurs when in response to (higher) charges on emissions in the EU, businesses transfer production to other countries or imports from these countries replace products (which are responsible for lower emissions) produced domestically. CBAM will force importing companies to purchase CBAM certificates to pay the difference between the carbon price in the country of production and the EU.

CBAM is the EU's response to the concerns that carbon leakage would offset the impact of the EU's climate policies on global emissions by increasing emissions in other countries. CBAM aims to address this issue and create incentives outside the EU to step up its efforts to reduce carbon emissions.

From October 1st, 2023, to 2026, there will be a transition period where the CBAM obligations will be limited to reporting and will apply to goods with high

chances of carbon leakage. Starting in 2026, the transition period will end, and importers will start paying adjustments.

► **International Sustainability Standards Board (ISSB)**

The International Sustainability Standards Board (ISSB) is an independent, private-sector body that develops and approves IFRS Sustainability Disclosure Standards (IFRS SDS). The ISSB was formed in 2021 following two consultations on the demand for global sustainability standards.

10. Overview of ESG Standards in BiH's Regulatory Framework

ESG standards are gaining in importance in the world of business in BiH. Their significance is above all the consequence of social development and continual social changes, as well as the identification of the need to respond adequately to them. One of the state's adequate responses includes the ongoing analysis of the impact of the legal framework in force and the alignment of domestic law with the international legal framework.

The range of human rights that can be categorised in the fields covered by ESG standards is wide. At the same time, international sources of law set the principles states are guided by when adopting new or amending their national regulations. Legislative achievements are the result of a process that does not stop and that tries to keep up with the times and the changes demonstrating the vital need to protect universal values in the world. **BiH is under the obligation to defend and protect such universal values through an adequate domestic legal order.** The international conventions and other international documents discussed in the handbook clearly show the path BiH should take in legislative terms.

As numerous official reports show, BiH's existing legal framework, particularly when the focus is on the application of ESG standards, is not fully aligned with all the international obligations it has assumed. The shortcomings identified in practice, such as the relevant institutions' slow or inadequate response, are also impeding or risk to impede responsible business conduct.

It is therefore understandable that companies in BiH mostly apply the discussed principles and clear guidelines in international and regional sources of law voluntarily, as a result of their awareness of their involvement in the resolution of universal problems by local measures. The ESG process is, however, unstoppable. It is a trend that will become obligatory the moment it becomes an integral part of BiH's aligned law.

Although the application of ESG standards is more pronounced in the EU legal landscape, one cannot say that BiH regulations do not provide for the application of these principles, and it does not reflect on the world of business. The BiH regulatory framework on corporate social responsibility, especially in the fields of finance, manufacturing, and employment, exists and constitutes a legal basis, pending the adoption of "hard" laws.

As per the environmental segment, BiH has been applying laws on environmental and air protection, waste and water management, laws on forests, and numerous by-laws at all levels of government. In addition to the regulations in force, the adopted strategies, emphasising, above all, international and regional guidelines, point to the obligation to comply with domestic regulations.

As per the social segment, BiH has been applying labour and occupational health and safety laws, regulations eliminating discrimination at work, laws protecting gender equality, laws on social protection and numerous by-laws the key provisions of which are in line with universal and regional international treaties. The ones most important for BiH include International Labour Organization (ILO) conventions and recommendations, UN enactments on economic and social rights, Council of Europe enactments, including the case-law of the European Court of Human Rights, as well as EU law.

As per governance, a number of laws in BiH governing the work of companies testify to the long-term reform of this area in BiH in terms of aligning the law, bearing in mind the earlier identified obstacles for investors, as well as with a view to fulfilling the obligations BiH assumed when it, inter alia, signed the Stabilisation and Association Agreement. Many other regulations on business

operations are in place as well, reflecting the diversity of activities companies are engaged in. Furthermore, companies are free to adopt their own in-house regulations to improve responsible governance, from the corporate governance code, procedures, technical and organisational measures, and oversight to other enactments transparently showing the company workers, as well as the public, that profit-making is one of the key issues but that it does not rule out the pursuit of other values social in character acknowledged by the business community.

The regulatory framework in BiH is the minimum that can serve as a foundations for an “upgrade”. Practice has shown that companies in BiH have been implementing numerous activities essentially relying not only on the regulations, but also on other principles, guidelines, or enactments the legal force of which transcends BiH’s borders.

Therefore, companies will be able to develop awareness of corporate social responsibility and manifest their readiness for ESG reporting only if they fully apply domestic law. In other words, businesses operating in accordance with BiH regulations are already well on their way to operating in accordance with ESG standards. Such reporting objectively amounts to an “upgrade”, given that it has not become a standard for all businesses operating in BiH. For instance, there are companies that have embraced the CSR policy and become good practice examples of the process all other companies must undergo for reasons elaborated in detail in this handbook.

To conclude, many companies in BiH are familiar with what ESG standards stand for. Depending on their needs, they: introduce strategic policies; develop their own studies; appoint committees or individuals with expertise in implementing ESG standards; apply a different approach to compliance with the principle of “decent work”; integrate due diligence in accordance with ESG criteria in their policies; identify actual and potential adverse effects on human rights and the environment; implement in-depth analysis measures; assess the effectiveness of their policies; notify the public of their activities in the light of ESG and outcomes; and change their management structure in accordance with the highest economic and social standards.

11. Getting started with ESG

What are the benefits of a **strong ESG programme in companies**?

- **Improved transparency and trust:** By disclosing detailed information about their ESG performance, companies demonstrate commitment to transparency, which helps build stakeholder trust. This can be particularly important in the modern business environment where investors, customers, partners, employees, and others increasingly demand sustainable, ethical corporate behaviour.
- **Decreased costs:** A strong ESG program can decrease expenses. Examples include lower costs in operations, e.g., energy, water, materials, and waste, in human resources (HR), e.g., higher productivity and easier talent attraction, avoiding non-compliance penalties, more accessible access to capital, etc.
- **Stronger competitive advantage:** Investors are likelier to invest in companies that disclose their ESG performance. Partners and customers are increasingly looking for responsible companies to do business with. Employees want to work for and stay with companies committed to building a positive impact on people and the planet.
- **Better risk management:** Preparing ESG programmes will help companies identify and manage potential risks and opportunities. For example, a company that discloses information about its carbon emissions may be able to identify opportunities to reduce those emissions, mitigate the associated risks, and lower costs.

Everything, however, starts with the materiality assessment. So, what is the concept of materiality?

All the ESG reporting and changes start with the understanding of the concept of materiality. As explained, stakeholders and investors are inquiring

about companies' dedication to sustainability initiatives and other activities that fall under the ESG umbrella. **It's essential to have answers to these questions.**

A materiality assessment provides a guide or blueprint for an organisation's ESG strategy. It empowers companies to easily report on the current state and outline future initiatives while considering business goals and risks. Companies use the concept of materiality to guide their sustainability strategic planning processes.

There is a distinction between the concept of materiality as it refers to financial reporting and the concept of materiality as it refers to sustainability reporting.

Regarding financial reporting, information is deemed material if its omission or misstatement could influence the economic decisions of users based on the financial statements. In contrast, in the sustainability context, the term materiality refers to those issues that can have significant repercussions on the company (both positive and negative). For example, the problem of water scarcity is generally considered a material issue for beverage companies as they rely on it to produce products and, with a consistent supply of inexpensive water, would likely avoid significant business challenges.

› Materiality Process

Potential impact on the company

In assessment, companies should focus on both positive and negative impacts. Of course, it should focus on risks, potential losses, or other adverse outcomes. But remember the opportunities that are uncovered throughout the process.

Importance to stakeholders

The more stakeholders are interviewed during the research and strategy phase, the more it will broaden the scope of the assessment.

Each stakeholder group will provide new perspectives and insights into opportunities and challenges.

There is no one way to conduct a materiality assessment. Many companies rely on external consultants to help them, while other companies with more robust sustainability teams manage the process themselves.

Generally, the process for conducting a materiality assessment includes the following steps:

1. Identify and categorise the key issues

In this phase, the company should develop a long list of issues. The various problems that could be classified under sustainability can make it very hard for a company to address and manage them. For this reason, a company should identify and prioritise the issues that are most material to its business and most relevant to its stakeholders.

2. Collect data from internal and external stakeholders

Internal stakeholders should include critical managers and business leaders, while external stakeholders should cover significant actors outside of the company, including business partners, community representatives, and NGOs. They should all be asked to weigh a list of issues by their relative importance.

3. Map and prioritise the issues

In this step, all of the data collected from internal and external stakeholders is put into a model or framework and transformed into a quantitative score that can be used to map and prioritise issues.

4. Align the issues with management and business vision

Once the data is collected, it can be integrated into business strategies and risk assessments.

5. Reporting on Progress

Most companies publish annual sustainability reports to report on progress. These reports generally refer back to the materiality matrix and the sustainability strategy and provide an update on key metrics and targets.

12. Overview of Reporting Frameworks

Companies use several key frameworks to develop an understanding of the critical materiality issues they should consider and report on. The frameworks each have a different purpose, audience, and articulation of the materiality concept.

Companies' materiality assessment will help pinpoint which frameworks, goals, strategies, and portfolios align well. Several of these frameworks require similar data and information that, once identified, can be easily repurposed for additional reporting processes.

UN Global Compact (UNGC) asks companies to pledge commitment to its sustainability principles across human rights, labour, environment, and anti-corruption. It requires signatories to produce an annual communication on progress (COP) that outlines progress made to embed the UNGC's ten principles into strategies and operations.

For example, check out [ETMAX's report](#).

Global Reporting Initiative (GRI) is an "international independent standards organisation that helps businesses, governments and other organisations understand and communicate their impacts on issues such as climate change, human rights and corruption."

For example, check out [Klika's report](#).

International Integrated Reporting Council (IIRC) is a global coalition of regulators, investors, companies, standard setters, the accounting profession, and NGOs.

For example, check out [Titan's report](#).

Sustainability Accounting Standards Board (SASB) sets industry-specific standards for corporate sustainability disclosure to ensure that disclosure is material, comparable, and decision-useful for investors. SASB standards address sustainability topics that are likely to be material and to have material impacts on the financial condition or operating performance of companies in an industry.

Task Force on Climate-related Financial Disclosures (TCFD) is an investor-focused disclosure framework that asks companies to provide information on the environment's impact on them.

13. Case study: Key trends identified among the past winners of the UNDP SDG Business Pioneers Awards

► Kakanj Cement: Unlikely Sustainability Hero Transforming the Cement Industry

In a world where cement factories are notorious for emitting hazardous air pollution and contributing to environmental degradation, one company has defied the norm and emerged as an unlikely hero of sustainability. Kakanj cement plant was founded in 1978 and has been operating since 2000 with the support of strategic partner Heidelberg Materials from Germany. Kakanj cement plant implements SDGs as a continuation of Heidelberg Cement Company's corporate strategy "Sustainability Ambitions 2020" focusing on five environmental areas: efficient use of resources, climate protection, reduction of environmental impacts, management and promotion of biodiversity, sustainable construction setting the highest standards than local legislation.

For two years in a row, 2019 and 2020, Kakanj cement plant won the award SDG Business Pioneer for their contribution in both "People" and "Resources and Environment" categories, and for their commitment to integrating SDGs into all business segments of their operations. In the following years within the programme Kakanj cement plant became the mentor to other companies devoted to fulfilling sustainable development goals.

The standards that Kakanj cement plant implements relate to the quality and volume of production, but also to the quality and content of the life of the workers in the factory and the community in Kakanj and BiH.

Although Kakanj cement plant does not have a large team dedicated to the implementation of the ESG standards the company's management encourages all employees to work and act in line with the goals of sustainable development. Implementation of ESG standards in the company is based on a strong knowledge base, data accuracy and diligent reporting.

All the employees are aware of the importance of the topic which is communicated throughout all levels in the company. According to their position employees are going through online and in-person training on environmental protection, health and safety, transparency, anti-corruption and many more.

The introduction of the CBAM mechanism is a good example of the importance of being prepared and leading the way in sustainability. Kakanj cement plant has been reporting according to the demanded standards since 2003, so they are now both prepared to disclose all the information and lead the industry with their example and experience.

Well-trained and dedicated employees have a significant role in the reporting process, especially in the medium size company like Kakanj cement plant, where there is a specific department dealing with it. The reporting system is not viewed as a burden but as an efficient toll of assessment, control, and verification. Over the years monitoring and reporting system in Kakanj was strengthened through establishing procedures and duties and now represents a base for strategic decisions and further development

Kakanj cement plant stands as an exquisite example of work in the community and for the community. Firstly, it fulfils the highest environmental and social standards which in industry like cement makes the foundation for trust and dialogue. Their trademark is transparency and openness for the dialogue. Representatives of the company have regular meetings with the community, through meetings, workshops, conferences, and as well are a part of the Environmental Protection Commission. Based on trust and accountability they are jointly opening all the topics and creating space for planning and cooperation.

Kakanj cement plant implements high standards of environmental protection by using innovative technology. Today, dust emissions do not exceed 10 mg/m³, which is much lower than the European limit of 30 mg/m³. Since December 2003, Kakanj cement plant has also had the ISO 14001 certificate for environmental protection management, which is proof that we are on the right track in terms of construction, development, and further improvement of the environmental protection system.

In order to promote biological diversity at their mines Heidelberg Cement has adopted group-wide guidelines for species protection. Heidelberg Cement is the first company in the construction materials sector to do this. The ten principles set forth in these guidelines are designed to facilitate dialogue with environmental protection authorities and associations, as well as with the broader public. They are also designed to promote biological diversity and environmental health both during and after mining operations.

One of the examples showing support in dedication certainly is the cooperation between Kakanj cement plant and an export-oriented shoe company that led to resolving the issue of production waste. A large amount of shoe soles that remained unused was used as fuel in the Kakanj cement plant. Although this activity required additional effort from all involved, both companies made sure that this goal was achieved, including investment in cutting, drying, chemical testing of the material to ensure that it does not harm the environment and the transport of that material.

Kakanj cement plant has dynamic cooperation with its strategic partner Heidelberg Materials, in terms of ESG standards this cooperation is based on the transferability of innovation, application of the same standards and continuous capacity-building activities. All the standards achieved through that cooperation are overflowing in the value chain, to its suppliers, both in goods and services. The company is also taking part in communication with consumers, educating and informing them on new aspects of eco cement and other products. By raising awareness and providing information, the company empowers consumers to make environmentally conscious choices and contribute to the broader sustainability goals.

Additionally, Kakanj cement plant actively promotes gender equality, with women occupying leadership positions such as vice-president, director of finance, and are present in the board. Moreover, women's presence in managerial roles extends to production and recruitment processes, further emphasising the plant's dedication to inclusivity and diversity.

Kakanj cement plant defies industry norms as an unlikely sustainability hero, showcasing a remarkable commitment to transforming the cement industry. Through dynamic cooperation with Heidelberg Materials for Germany, the Plant implements rigorous ESG standards, fosters employee awareness, engages with the community, and promotes gender equality and biodiversity. With a focus on transparency, innovation, and continuous improvement, Kakanj cement Plant serves as an inspiring example of sustainable practices, empowering workers and contributing to a greener future.

► **Smrčak: Empowering Communities through Sustainable Business Practices**

Smrčak, located in Zvornik, is a renowned company with a rich tradition spanning over 35 years. Established in 1992, Smrčak has firmly positioned itself as a leader in the collection, processing, and selling of various produces found in nature, specialising in mushrooms, medicinal plants, and organic fruits and vegetables. With its commitment to quality, sustainability, and the preservation of natural habitat, Smrčak continues to thrive in the market, offering products derived from the region's abundant natural resources.

Smrčak has been recognised as a winner in two categories: "Resources and Environment" and "People," making them the overall winner of the SDG Business Pioneers Award in BiH in 2021. The company's motivation to engage in this field stems from its recognition that adhering to the rules of sustainable development is essential for preserving the planet and ensuring the well-being of its inhabitants. In fact, Smrčak envisions that the successful future of their company is embedded in ensuring the happiness and security of their employees and the overall community.

Although Smrčak does not have a dedicated team for sustainability, the company's management encourages all employees to work, behave, and live in line with the goals of sustainable development. The nature of their industry inherently guides them in embracing such principles. In fact, sustainability goals were a crucial part of the business operations of Smrčak from the very beginning. Since its establishment, the company has been involved in the purchase, processing, and sale of organic mushrooms, medicinal plants, and forest fruits, aligning its business practices with its long-standing commitment to living in harmony with nature, and its focus on sustainability will continue to shape their future endeavours.

Innovation and technology play a crucial role in improving the business and products of Smrčak. For instance, the company has continuously sought out new products, recognising the healing potential of natural resources, they have invested in modern equipment and aim to ensure the highest quality production. A good example is that over 20 years ago they adopted innovative technology to collect and store bear's garlic (*Allium ursinum*) and are now the largest producer of dried bear's garlic in Europe.

Suppliers also play a significant role in helping Smrčak achieve its sustainability goals. The company educates both suppliers and workers on sustainable practices, particularly regarding the collection of products from nature. These educational efforts promote responsible behaviour, including the selection of contamination-free areas, waste reduction, and biodiversity preservation.

Communication on sustainability matters with the company's team occurs through daily informal and formal meetings within the company. Smrčak is also a part of the Economic Council of Zvornik and organises training sessions for various stakeholders to raise awareness and share knowledge. Implementing sustainability goals in some cases poses challenges for Smrčak, primarily related to raising awareness among the general population and government about the importance of sustainable development for the preservation of the country's nature. Smrčak noted that the lack of understanding is exemplified in the unharmonised legal framework of BiH related to sustainability, regulating fields such as collection of forest products and renewable energy sources, which only creates obstacles and discourages investments in such projects.

Smrčak actively promotes gender equality within the company. Over 95% of their workforce comprises women, and women hold 50% of managerial positions, demonstrating the company's commitment to empowering women in various roles. Through their dedication to sustainable practices, innovation, and gender equality, Smrčak sets a positive example for other businesses in BiH, showcasing how private enterprises can align their operations with the SDGs and ESG standards and contribute to a more sustainable future.

► **ETMAX: Paving the Way for Renewable Energy Transition in BiH**

ETMAX, established in Banja Luka in 2012, is an innovative electrotechnical company dedicated to implementing and promoting cutting-edge electricity production systems. Their services encompass the design, development, and construction of photovoltaic power plants, better known as solar power plants, aimed at maximising energy efficiency and sustainability.

ETMAX has been making waves in the field of sustainable development, earning recognition as the recipient of the SDG Business Pioneers Award in BiH for "Resources and Environment" in 2022. As a finalist in the 2023 Awards, ETMAX is undoubtedly paving the way for green transition in BiH, as a successful "clean" energy company in the country still highly dependent on coal.

The company's commitment to sustainable business practices has yielded significant positive effects. First of all, ETMAX applied an approach of fully functional transition to renewable energy sources, which cover over 85% of its energy needs. Furthermore, the company has played a pivotal role in constructing the largest number of solar power plants in BiH, contributing to the long-term reduction of environmental pollution.

But what drives ETMAX to engage in sustainable development? Their aim is to ensure the functional use of renewable energy sources, particularly solar energy, thereby making a significant social contribution. In fact, sustainability goals are integrated into their business strategies that define measurable objectives that are easily tracked at the company level, but they also engage in sustainable business practices in a broader sense. For example, ETMAX

implements and continuously reviews the possibilities of effective application of the circular economy, recycling, and reuse of sources. To achieve its sustainability goals, ETMAX boasts a dedicated team that spans various fields, including engineers, lawyers, and economists. This collaborative effort allows them to manage business processes, apply good practices, and continuously improve their sustainable development endeavours.

Innovation and technology play a crucial role in improving ETMAX's business and products. Their ingenuity is evident in every aspect, from design and technological enhancements to equipping photovoltaic systems with high-performance equipment. Going the extra mile, ETMAX has even ventured into producing some components for their power plants and strives to use their own products in production as much as possible in the long run.

ETMAX recognises the importance of suppliers in achieving sustainability goals. They uphold the principle of responsible business by ensuring that their suppliers share the same values and commitment to sustainability. Collaborating with global leaders in the sector, ETMAX rigorously verifies and checks practices to maintain high global standards and foster continuous improvement.

Both internally and externally ETMAX ensures that the company's strategic goals are always clearly communicated, to the team, partners, and various stakeholders, including the wider public and the media. By engaging with the public and sharing information, ETMAX effectively showcases their sustainable practices, achievements, and the positive impact they bring to society and the environment.

ETMAX's dedication to transparency is evident in their reporting practices. Since 2021, they have been reporting according to GRI standards. This allows them to assess the effectiveness of their sustainability practices, identify areas for improvement, and understand how sustainable development affects their overall business processes. In addition, the implementation of ISO 14001:2005, an internationally agreed standard that sets out the requirements for an environmental management system, serves as a foundation for the continued development of sustainability practices.

Implementing sustainability goals does not come without its challenges and ETMAX views them as opportunities for advancement and development. Being in a relatively new industry, they initially faced the task of establishing the photovoltaic sector in their region. Looking ahead, they anticipate future challenges related to climate change, which only underlines the importance of their work toward cleaner energy production.

In terms of the legal framework, ETMAX diligently adheres to relevant laws related to the environment, society, responsible management, and sustainability. Their business activities have a positive ecological footprint, contributing to the reduction of harmful emissions. As the company that has constructed the highest number of solar power plants in BiH, ETMAX's work holds broader significance, driving awareness among the business community and the general public about the financial and socially responsible benefits of utilising renewable solar energy.

ETMAX's remarkable achievements and unwavering dedication to sustainable development have rightfully earned them recognition as leaders in the field. As they continue to make good progress, their efforts will undoubtedly inspire other companies to embrace sustainable practices and contribute to a greener, more environmentally conscious future.

► **Klika: The New Era of Sustainability**

From ensuring better quality jobs and inclusiveness at their workplace, to the development and application of technologies aimed at environmental protection and mitigating climate change — there are many ways in which Klika, a fast-growing provider of software development services in BiH, ensures sustainability efforts are reflected in their operations. It comes as no surprise that in 2023 this **company was declared as a winner** in the “People” and “Resources and Environment” categories for medium-sized companies, as well as the overall winner of UNDP's **SDG Business Pioneers Award in BiH**.

“As a company in the IT industry in BiH, we are very aware of the impact that our business can have on society, the environment, and resources. Our involvement in sustainable development is motivated by a variety of factors. We understand that we are part of a global community and that our decisions and

actions can have a wider impact, because the IT industry has great potential for innovation and the application of technological solutions that can significantly contribute to sustainability”, explained Dragana Mujanović, Head of Operations of Klika.

In particular, Klika promotes sustainability through a variety of avenues, including education, resource management, and social initiatives, as one of its main motives is to utilise its expertise, including human and technological capacities, to improve societal sustainability and generate positive changes. To stay on track with this mission, and remain proactive in their efforts, **Klika has a special team dedicated to sustainable development**, which operates through the Klika Foundation and the CSR program, as well as a CSR Officer who covers various areas, such as sustainability, resource management, social responsibility, and communication. Their Marketing team also develops and implements sustainable development strategies into their business processes, monitors progress towards sustainability goals, and promotes awareness and engagement within the company.

“Sustainability goals are fully integrated into our business strategies and operations. They are embedded in our corporate culture, management processes and at all levels of the organisation. Specific strategic goals are determined based on key challenges and opportunities related to sustainability in the IT industry in Bosnia and Herzegovina we identify in our evaluation process. **As part of our strategic goals, we aim to reduce negative impacts on the environment, increase energy efficiency, promote sustainable resource use, support local communities and social initiatives, and promote gender equality.** Each goal is defined and monitored by using measurable parameters which are shared publicly through our Corporate Social Responsibility Report”, explained Dragana.

Klika’s CSR report measures their overall sustainability efforts, such as energy savings, waste management, social initiatives, employee involvement and gender equality. The report is transparent, measurable, and aligned with relevant international standards such as the GRI standards. At the moment, Klika is one of the few companies in Bosnia and Herzegovina that reports on its CSR activities in this way — transparency and openness underpin

Klika's efforts to build trust and cooperation with all stakeholders, including their partners and the border community.

Their efforts are, however, not without challenges, that predominantly arise when it comes to sustainability awareness in the wider community.

"It is necessary to continuously raise awareness and educate all community members about the importance of sustainability and their role in achieving these goals. Also, due to the size of our market and the fact that it is less proactive in adopting sustainability trends, it is often difficult to find suppliers who are already aligned with the requirements of sustainable business. Of course, we face technical and technological challenges, such as the implementation of new technologies, data monitoring and analysis and the integration of sustainability into digital platforms", explained Dragana.

Gender equality is one of the main pillars of Klika's effort to ensure an inclusive, supportive, and empowering workplace, which they ensure by **adopting and continuously improving company policies that promote gender equality, prohibiting discrimination on any basis, and strategically dealing with these important matters.**

"We have policies and practices that promote gender equality and support the professional development of women (such as paid maternity leave), and we do not discriminate in any way when selecting candidates — we have zero tolerance for discrimination on any basis. Our Code of Ethical Conduct is mandatory and contractually stipulated, with prescribed sanctions in case of violation/non-compliance. Any employee who faces or witnesses any violation of the Code of Conduct must notify the relevant department in writing and file an official complaint accordingly", said Dragana.

"We encourage the active participation of women in decision-making and project management, and we are proud of the fact that gender equality is evident in our highest management structure — the Strategic Board. We actively work to raise awareness of the importance of gender equality and encourage an inclusive work culture where diversity is valued and where every person has equal opportunities to succeed", she added.

From their sustainable business practices to innovative approaches for ensuring the environment and communities are not only protected but also positively impacted, there is much to learn from Klika about the new era of sustainability. Awareness of ESG standards is widely understood throughout their team, benefiting the overall goal immensely, as it allows for more comprehensive and proactive solutions.

14. How to Utilise Environmental, Social and Governance Standards – Take Action Now

In Bosnia and Herzegovina, small and medium-sized enterprises (SMEs) have a crucial role in creating jobs, driving innovation, and leading gross domestic product (GDP) growth. SMEs in BiH are generating more than 60% of total value added and almost 70% of total employment. Adopting the ESG agenda early and paying attention to developing an ESG strategy can have significant financial, risk and reputational benefits.

Those SMEs that become early adopters will be best placed to prosper and avoid scenarios in which a rushed ESG framework will be put into place when new ESG regulations do take effect, or investors start to regularly ask for their ESG plans.

SMEs that prioritise ESG today are putting themselves in a better position to enter new markets, expand in existing ones, and ensure their long-term success.

If SMEs want to advance with ESG they shouldn't simply copy large companies' strategies, but they can certainly benefit from their work. For example, although SMEs do not have the same level of resources or influence to drive ESG objectives through their supply chains, they can benefit from the work the larger players in their markets have done as part of their own ESG commitments. For example, SMEs can use these larger players' supply chains to ensure they partner with suppliers that adhere to best practices.

Some practical steps that SMEs can take:

- **Leadership** – It is clear that the ESG journey has to start at the top, followed by building a team that is dedicated to the values promoted by ESG and equipping them with the resources required to make a difference.
- **Purpose** – Defining and communicating companies' purpose and committing to principles can build the company's values and accountability. For example, through the United Nations Global Compact SMEs can commit to the environmental, human rights, labour, and anti-corruption standards and use its mechanism and network.
- **Metrics** – Metrics and accurate data are the key to creating meaningful ESG strategy. It is not necessary to measure everything, but it is vital to measure crucial things. If the industry that SME is in has clear leaders in the ESG their experience might be a good starting point and source of inspiration.
- **Monitoring** – Regular progress monitoring ensures continued progress but also creates early awareness of changes in standards, regulations, and certification. SMEs can accomplish this by establishing ESG committees or adding responsibilities to existing committees.
- **Communication** – ESG standards could be key for managing risks, from reputational to legal. It is important to communicate the ESG standards internally within the organisation, as well as externally to customers, to intermediaries, banks, and through the whole value chain.
- **Transparency** – Without transparency and honesty in the reporting it is impossible to track the progress and benefit from the work that is done well. It might be appealing to sugar-coat data, but at some point, due diligence will show that, and what should have successful progress will be seen as a failure.

Small and medium-sized businesses are well known for their agility and innovation but incorporating ESGs can be a significant burden for the SMEs.

SMEs that fall behind on ESG risk losing valuable opportunities with major regional and international companies.

Despite their impact, many are not yet fully engaged in environmental, social, and governance issues. It is easy to understand why as they have fewer resources, and they just can't place ESGs high on the to-do list.

Naturally, SMEs are far more likely to prioritise more immediate financial and development concerns than they are to develop a long-term ESG strategy.

But, what is important is that many SMEs are implementing the ESG standards without putting them into the framework, and could significantly benefit from the formalisation and acknowledgement. All that SMEs might be doing to stop or minimise any harmful effects of business on the environment, treating employees fairly customers fairly, obeying laws and doing the right thing for the community and throughout the supply chain might already be part of the ESG standards.

As mentioned above ESG reporting standards and regulations are evolving fast. The German Code on Due Diligence in Supply Chains and a parallel EU legislation are part of a growing global drive to oblige companies to carry out human rights and environmental due diligence across their supply chains. If required, companies must show they have identified actual or potential risks to people and the environment. The evidence must be obtained from suppliers or the suppliers' own suppliers.

As a result, SMEs that fall behind on ESG risk losing valuable opportunities with big companies, particularly where regulation or capital depends on it, unless they can match the ESG standards of their customers.

SMEs need to be shown the business case for adopting ESG: how it reduces risks and can help cement relationships with important clients. This is where larger companies with their greater access to technology, know-how, and resources, can help.

15. Recommendations

► ESG Strategy

› Define ESG Goals and Objectives

This involves identifying the key ESG issues that are relevant to business and setting measurable targets that align with the business strategy. ESG goals and targets are essential because they help companies track their progress towards sustainability and ethical impact. For example, for a manufacturing company, reducing carbon footprint, waste and improving energy efficiency may be key ESG goals.

› Assess ESG Risks and Opportunities

Conducting ESG materiality assessment to determine the material risks and opportunities associated with business activities, such as the impact of operations on the environment, the social impact of your products or services, and the governance structure of your business.

› Integrate ESG into Business Operations

ESG standards should be integrated into the business strategy, rather than treated as a separate initiative. This can help ensure that ESG is prioritised and integrated into decision-making processes across the organisation.

› Implement ESG Reporting and Monitoring

ESG reporting and monitoring is an important part of any ESG strategy. It demonstrates the commitment to sustainability and transparency and identifies areas that need improvement. ESG reporting is attracting investors and customers who value sustainability and ethical impact.

► Reporting

› **Harmonise sustainability reporting and company operations in practice**

The goal of reporting is to show progress but sustainability reporting often focuses exclusively on the positive elements. As the basic principle is to point out key challenges and negative practices, companies should refer to them more clearly in their sustainability reports, with an indication of measures and approaches they are planning to use.

In that way companies are showing a high level of transparency and establishing a basis for dialogue between the wider community and companies.

› **Acknowledge and use the principal Report and Explain**

Although companies, especially SMEs, cannot report on all aspects of sustainability it is beneficial to be guided by the principle of *report or explain*: if certain elements of the sustainability report are not applicable to the company in question, this should be clearly explained in the reports.

› **Make a clear distinction between CSR and ESG**

Clearly separate the use of the terms CSR and ESG. CSR reporting is often confused with ESG reporting and reports are still called reports on socially responsible business. Therefore, it is necessary to clearly separate sustainability (ESG) reporting from reporting on socially responsible business (CSR) in order not to confuse these concepts.

› **Specify the methodology used**

If the reporting methodology is not explicitly mentioned it leads to the absence of precisely defined criteria and makes monitoring and evaluation difficult. It is beneficial that companies identify the methodology they are using and use it consistently.

› **Interlink sustainability reports with the company's progress towards achieving SDGs**

To make monitoring the achieved results easier in the context of contribution the achievement of the SDGs, companies should specifically state the way in which they are contributing through their activities and policies. That way it would make it possible to clearly link the companies' sustainable endeavours with SDGs.

› **Invest in internal ESG teams**

Companies' approach to the issue of sustainability needs to be systematic, never ad hoc. This leads to the need to support individuals and teams who would permanently deal with sustainability strategies, policy development and practice in this area, implementation of standards, as well as sustainability reporting.

Annex 1: History of global environmental and social governance: Overview of the UN conventions and instruments

Addressing human rights and environmental concerns, sustainable development, and other related causes have been at the top of the UN's agenda for decades. To help countries achieve these objectives, the UN has developed numerous conventions and instruments and invested significant effort in providing research and recommendations for their implementation.

► Conventions concerning environmental issues

The UN's effort to address environmental concerns dates back to the United Nations Conference on the Human Environment, held in Stockholm in 1972. This was the first major international event regarding ecological preservation and enhancement, creating recommendations for joint action by the Stockholm Declaration and Plan of Action. Furthermore, the first UN programme concerning environmental issues was also designed during the conference – United Nations Environment Programme (UNEP). Twenty years later, the Earth Summit in Rio de Janeiro represented a historic moment in the global sustainability movement. The UN argued that economic development is deeply connected to environmental issues in their efforts to get states to take meaningful action to stop polluting the planet and depleting its natural resources. Following the Summit, three new instruments were adopted to address this goal:

- The United Nations Framework Convention on Climate Change (UNFCCC) offers a basic legal framework and principles for international cooperation to combat climate change and to stabilise greenhouse gases.

- The Convention on Biological Diversity (CBD) encourages conservation, sustainability, and the fair and equitable sharing of natural resources. CBD covers a wide array of domains directly or indirectly related to biodiversity, ranging from science, politics and education to agriculture, business, culture and much more.
- The United Nations Convention to Combat Desertification (UNCCD) is the sole legally binding international agreement linking environment and development to sustainable land management.

Soon after, the UN began to link environmental concerns with sustainable development frameworks in a more tangible way. Nowadays, that interconnection is exhibited through the SDG goals, mainly Goal 6 (Clean Water and Sanitation), Goal 7 (Affordable and Clean Energy), Goal 11 (Sustainable Cities and Communities), Goal 12 (Responsible Consumption and Production), Goal 13 (Climate Action), Goal 14 (Life Below Water), and Goal 15, (Life on Land).

► **Conventions concerning human rights and social issues**

The UN has several conventions whose aim is to set international standards for the protection and promotion of human rights and that cover a wide array of social issues, including discrimination, economic, social, cultural, civil and political rights, rights of historically marginalised groups, and whose goal is to reduce poverty and inequality, eliminate all forms of violence and improve access to healthcare and education. Some of the international human rights declarations and treaties that concern business companies are:

- The Universal Declaration of Human Rights (UDHR) is widely considered a milestone document in the history of human rights, as it is the first single document that comprehensively covers the range of fundamental rights and freedoms that belong to all human beings.
- The International Convention on the Elimination of All Forms of Racial Discrimination (ICERD) is one of the oldest UN conventions, adopted almost 60 years ago, whose goal, however, to this day remains important – combating oppression and discrimination. ICERD calls on states to “adopt all necessary

measures for speedily eliminating racial discrimination in all its forms and manifestations, and to prevent and combat racist doctrines and practices to promote understanding between races and to build an international community free from all forms of racial segregation and racial discrimination”.

- The International Covenant on Economic, Social and Cultural Rights (ICESCR) develops the corresponding rights in the UDHR, with greater detail and specific steps required for their full realisation, including the right to education, fair and just conditions of work, and an adequate standard of living.
- The International Covenant on Civil and Political Rights (ICCPR) sets out principles for respecting the civil and political rights of individuals, including freedom from torture and other cruel, inhuman or degrading treatment or punishment, fair trial rights, freedom of thought, religion and expression, privacy, home and family life and equality and non-discrimination.
- The Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) requires states to eliminate discrimination against women and girls in all areas of life and ensure they have equal access and rights concerning political participation, health, education, employment, housing, marriage, family relations, etc.
- The Convention on the Rights of the Child (UNCRC) concerns every child’s civil, political, economic, social and cultural rights, regardless of race, religion or abilities. UNCRC encourages states to adopt legislation that ensures children get the health care and nutrition they need to survive and develop, adopt stronger safeguards to protect them from violence and exploitation, and encourage children’s participation in their societies.
- The International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families (CRMW) requires states to ensure the protection of the rights and prevention and elimination of the exploitation of migrant workers and members of their families throughout the entire migration process.

- The Convention on the Rights of Persons with Disabilities (CRPD) promotes, protects and ensures the rights of all persons with disabilities and promotes respect for their inherent dignity.

► Conventions concerning governance issues

The UN has several conventions aimed at promoting the rule of law, transparency, responsibility, and accountability, and that also respond to prominent modern issues concerning governance, such as corruption and cybersecurity:

- United Nations Convention against Corruption (UNCAC) concerns the prevention, detection, and punishment of corruption, including bribery, embezzlement, and money laundering. UNCAC covers five main areas: preventive measures, criminalisation and law enforcement, international cooperation, asset recovery, and technical assistance and information exchange.
- United Nations Guidelines for Consumer Protection (UNGCP) provides a set of principles to guide states in creating effective consumer protection legislation and institutions, promoting international cooperation, and sharing experiences in consumer protection.
- United Nations Convention on Cybercrime was the first international treaty that addresses crimes committed over the internet and other computer networks, including cyber fraud, hacking, and the spread of computer viruses. At the moment, this Convention is being renegotiated in order to develop a new and more inclusive approach to addressing cybercrime.

List of Acronyms

- **BiH** - Bosnia and Herzegovina
- **CBD** - Convention on Biological Diversity
- **CEDAW** - Convention on the Elimination of All Forms of Discrimination against Women
- **CEO** - Chief Executive Officer
- **CSR** - Corporate Social Responsibility
- **ESG Standards** - Environmental, Social and Governance Standards
- **ICCPR** - International Covenant on Civil and Political Rights
- **ICERD** - International Convention on the Elimination of All Forms of Racial Discrimination
- **ICESCR** - International Covenant on Economic, Social and Cultural Rights
- **IIRC** - Integrated Reporting Council
- **MDGs** - Millennium Development Goals
- **NDCs** - Nationally Determined Contributions
- **SDGs** - Sustainable Development Goals
- **UNCAC** - United Nations Convention against Corruption
- **UNDAF** - UN Development Assistance Framework

- **UNDP** - United Nations Development Programme
- **UNEP** - United Nations Environment Programme
- **UNFCCC** - United Nations Framework Convention on Climate Change
- **UNGCP** - United Nations Guidelines for Consumer Protection
- **UNFP** - UN Guiding Principles on Business and Human Rights
- **UDHR** - Universal Declaration of Human Rights
- **UN** - United Nations
- **UNTOC** - United Nations Convention against Transnational Organized Crime
- **USA** - United States of America
- **USD** - United States dollar

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Check out our reading list of useful reports, articles and other documents that benefit your business.

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