

Ljutić, Ivana; Veledar, Benina; Gadžo, Amra; Knežević, Mila

Article — Published Version

European Sustainability Reporting Standards: Lack of Progress, Alignment, and Harmonization in Western Balkans

Economic Analysis

Suggested Citation: Ljutić, Ivana; Veledar, Benina; Gadžo, Amra; Knežević, Mila (2024) : European Sustainability Reporting Standards: Lack of Progress, Alignment, and Harmonization in Western Balkans, *Economic Analysis*, ISSN 2560-3949, Institute of Economic Sciences, Belgrade, Vol. 57, Iss. 2, pp. 36-48,
<https://doi.org/10.28934/ea.24.57.2.pp36-48>

This Version is available at:

<https://hdl.handle.net/10419/324920>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



<http://creativecommons.org/licenses/by-nc-nd/4.0>

REVIEW PAPER

European Sustainability Reporting Standards: Lack of Progress, Alignment, and Harmonization in Western Balkans

Ivana Ljutić^{1*}  | Benina Veledar²  | Amra Gadžo³ | Mila Knežević¹ 

¹ The Union University – Belgrade Banking Academy, Belgrade, Serbia

² University of Sarajevo – School of Economics and Business, Sarajevo, Bosnia and Hercegovina

³ University of Tuzla - Faculty of Economics, Tuzla, Bosnia and Hercegovina

ABSTRACT

This paper aims to investigate the status of alignment and harmonization of corporate reporting in Western Balkans (WB) countries with the European Sustainability Reporting Standards (ESRS). Specifically, the research will focus on understanding the extent to which WB countries have initiated the adoption of ESRS, particularly in the context of the Corporate Sustainability Reporting Directive (CSRD) that mandates its use for companies within the European Union (EU) and its branches. The paper will compare the achieved level of sustainability reporting in Western Balkan countries with other countries located in Europe that are not members of the European Union. Despite the mandatory nature of ESRS for companies within the EU, our preliminary analysis indicates a lack of progress in the alignment and harmonization process among the WB countries. Western Balkan countries are also lagging behind, compared to other non-EU member countries, such as Switzerland and Norway, which have been selected for comparative analysis. The research seeks to uncover the reasons behind this lag and to explore the potential challenges faced by companies in the WB region in implementing these standards. It is crucial to understand the current state of sustainability reporting practices in WB countries and the challenges faced in aligning with ESRS. It will provide valuable insights for policymakers, businesses, and stakeholders on the necessary steps to enhance sustainability reporting practices in the region and foster alignment with international standards.

Keywords: *European Sustainability Reporting Standards, Corporate Sustainability Reporting Directive, Sustainability Reporting Practices, Western Balkans countries*

JEL Classification: M14, F63, Q56

INTRODUCTION

As the global community grapples with the urgent need for sustainable practices, the European Union (EU) has emerged as a frontrunner in championing corporate responsibility through the introduction of the European Sustainability Reporting Standards (ESRS). Embedded within the Corporate Sustainability Reporting Directive (CSRD) framework, these standards mandate a comprehensive approach to sustainability reporting for companies operating within the EU and its branches.

The significance of sustainability reporting cannot be overstated. It serves as a cornerstone for fostering transparency, accountability, and ethical business practices. As the EU aims to

* Corresponding author, e-mail: ivana.ljutic@bba.edu.rs

strengthen its commitment to sustainability, the evolution and strict enforcement of ESRS reflect a concerted effort to ensure that companies operate with an acute awareness of their environmental, social, and governance (ESG) impacts. Furthermore, the EU's ongoing efforts to tighten reporting criteria signal a global shift towards heightened scrutiny of corporate sustainability practices.

However, the question arises about countries that are on the European continent but are not part of the EU. How to raise awareness about sustainability and improve the legislative framework for sustainability reporting in these countries, especially in the WB? The goal of the EU is to become the first climate-neutral continent by 2050 and to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. This goal will not be achievable if the WB countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia) continue at their current pace of harmonizing legislative regulations with the EU. Other non-EU countries are undergoing the same process of aligning business practices and reporting standards with sustainability, but their progress is visibly better than that of the WB countries.

LITERATURE REVIEW

The harmonization of sustainability accounting reporting in European countries, both EU members and non-members, has been a subject of ongoing research. While EU directives have influenced accounting practices in member states, their effectiveness in reducing differences remains inconclusive (Çürük, 2002). Some non-EU European countries, such as Turkey and Switzerland, have also been influenced by EU directives, though the impact on Baltic states is unclear (Çürük, 2002). The Global Reporting Initiative (GRI) standards have contributed to a higher degree of harmonization in sustainability reporting, as evidenced by a study of Italian public interest entities (Pizzi et al., 2024). Central and Eastern European countries, which historically followed a mixed economy model, have made efforts to harmonize their financial reporting with EU regulations (Randelović & Đukić, 2018).

At the same time, the IFRS Foundation and EFRAG introduced new sustainability reporting standards. IFRS Foundation introduced two new International Financial Reporting Standards (IFRS), while EFRAG went much further in prescribing regulations and brought a set of standards with a much larger scope of indicators that need to be monitored. According to Giner & Luque-Vílchez (2022), EFRAG takes a wider view than the IFRS Foundation on certain key reporting aspects, namely, target audience, materiality, and reporting boundary. Regarding the reporting scope, while the IFRS Foundation appears to have a more restrictive perspective, efforts are underway to expand it. The future impact of ESRS sustainability reporting standards is a topic of growing interest, with a focus on the evolution of research areas (Bosi, 2022). This is particularly relevant in the context of industry-specific sustainability benchmarks, which are being developed to bridge corporate sustainability with socially responsible investments (Brink, 2004). The role of Certified Public Accountants in auditing corporate sustainability reports is also highlighted, with a call for greater clarity on the criteria and standards to be used (Ballou, 2006). Finally, the importance of ESG reporting in meeting stakeholder expectations and enhancing stakeholder value is emphasized, with a focus on the role of financial professionals in this process (Raghavan, 2022). A new economic analytical tool is data envelopment analysis (DEA), which is used in efficiency analysis to measure entrepreneurial efficiency in achieving desired values of macroeconomic indicators, such as the objectives of sustainable economic growth (Basdekidou, Papapanagos, 2024). The European Green Deal is envisaged to help investors and listed companies publish regular reports on the social and environmental risks they face, and how their activities impact people and the environment (The European Green Deal, 2024). New rules on corporate sustainability reporting came into force on 5 January under the Corporate Sustainability Directive (CSRD) (The European Parliament and the Council, 2022). The EU Corporate Sustainability Reporting Directive will have large implications for SME actors, particularly in the

Western Balkans region, where firms tend to be smaller compared to those in the EU (Ahern, 2023).

Research on sustainability reporting in Central and Eastern Europe (CEE) and the WB has revealed a lack of progress and alignment with European standards (Horváth, 2017; Radukić 2019). This is particularly evident in the patchwork of reporting requirements, which lacks a dominant, globally accepted set of standards (Hijink, 2019). The need for further development and harmonization of sustainability reporting is emphasized, with a call for an international approach (Hijink, 2019). Despite the challenges, there is potential for collaboration and innovation in achieving the Sustainable Development Goals (SDGs) in the WB (Radukić, 2019). The Western Balkans countries face significant challenges in achieving sustainable development goals, as evidenced by their low SDG index scores (Radukić, 2019). These challenges are rooted in a range of factors, including weak institutions, a difficult business environment, and corporate over-indebtedness (Sanfey, 2018). Local governments in the region have made progress in sustainable development planning, but face capacity and economic challenges (Milutinović, 2010). Innovative financing mechanisms, such as ESG/sustainability-linked bonds and debt-for-climate swaps, have been proposed as potential solutions to these challenges (Lukšić, 2021). Companies governed by the CSRD will be required to report according to European Sustainability Reporting Standards (ESRS) (The European Parliament and the Council, 2023a). This approach is relevant to a broader set of large companies, as well as listed SMEs, which will now be required to report on sustainability (The European Parliament and the Council, 2023b).

There is a gap in research for the Western Balkan countries. Further research is needed to understand the current state and future development of sustainability reporting in this region.

DATA AND METHODOLOGY

This paper aims to compare the progress of Western Balkan (WB) countries in achieving sustainable development goals and sustainability reporting with the selected countries of Norway and Switzerland, which are also non-EU members. The comparison will be made through an analysis of the growth trend of the SDG Index between the WB countries and Norway and Switzerland over a period of 22 years (from 2000 to 2022). Additionally, the number of sustainability reports published in accordance with SASB standards (Sustainability Accounting Standards Board) will be compared for a period of 6 years (from 2018 to 2023). The goal of these comparative analyses is to demonstrate that the Western Balkan countries are significantly lagging behind in aligning business practices and reporting with the principles of sustainable development. After detecting the depth of this misalignment gap, an analysis of the current state of compliance and harmonization of corporate reporting in the Western Balkan countries with the ESRS will be conducted. Specifically, the research will focus on the extent to which Western Balkan countries have started adopting ESRS, particularly in the context of the CSRD, which mandates the use of these standards for companies within the EU and their subsidiaries.

The SDG Index (Sustainable Development Goals Index) is managed by the Sustainable Development Solutions Network (SDSN), a global initiative of the United Nations focused on providing solutions to sustainable development challenges. SDSN was established in 2012, and the SDG Index is used to track the progress of countries towards achieving the Sustainable Development Goals (SDGs) set by the UN.

The SDG Index evaluates countries based on their progress in achieving each of the 17 Sustainable Development Goals and provides a global ranking. The database, reports, and analyses of the SDG Index are available on the official SDSN website.

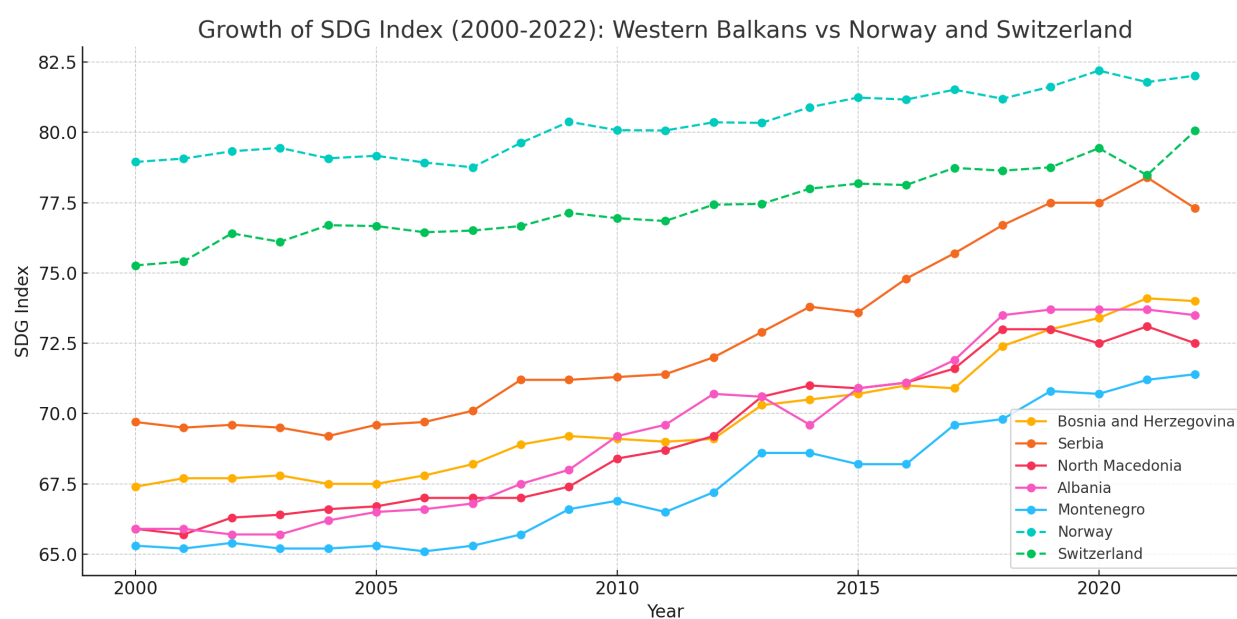
The SASB standards database refers to a set of standards that define the relevant sustainability information that companies should report to investors. SASB standards enable companies to report on their sustainability practices and performance in terms of financial impacts on the industry, market, and investors. These standards focus on key factors that affect a company's

financial performance, such as emissions management, labor rights, corporate governance, and other sustainability factors. The SASB standards database includes specific guidelines and performance indicators for 77 industries, helping to report sustainability in a way that aligns with investor needs. These guidelines cover topics such as energy efficiency, waste management, corporate ethics, climate change reporting, and more. In 2021, SASB became part of the Value Reporting Foundation, which is now integrated into the International Financial Reporting Standards (IFRS) Foundation. All data and guidelines related to SASB standards can be found on the official websites of SASB or the Value Reporting Foundation.

RESULTS AND DISCUSSION

Sustainability Indicators: WB Countries vs. Norway & Switzerland

In graphic 1, it is clearly visible that the Western Balkan countries show a higher growth of the SDG index over time compared to Norway and Switzerland. However, the initial position of the SDG index and the achieved level in Norway and Switzerland are significantly higher than in the Western Balkan countries. It is evident that Montenegro lags the most among the Western Balkan countries in achieving the Sustainable Development Goals, while the Republic of Serbia has the highest SDG Index level compared to the rest of the WB countries.



Graphic 1. Growth of SDG Index: WB vs Norway and Switzerland

A comparative overview of the SDG Index values is presented in the following Table 1. The comparative overview of the SDG Index values in the table shows how different countries, in this case, the Western Balkan countries and other selected countries such as Norway and Switzerland, are ranked based on their progress in achieving the Sustainable Development Goals (SDGs) from 2000 to 2022.

Table 1. Movement of the SDG Index from 2000 to 2022 for the countries of the WB vs. Norway and Switzerland

Year	BiH	Serbia	North Macedonia	Albania	Montenegro	Norway	Switzerland
	SDG Index	SDG Index	SDG Index	SDG Index	SDG Index	SDG Index	SDG Index
2000	67.40	69.70	65.90	65.90	65.30	78.95	75.27
2001	67.70	69.50	65.70	65.90	65.20	79.07	75.41
2002	67.70	69.60	66.30	65.70	65.40	79.33	76.41
2003	67.80	69.50	66.40	65.70	65.20	79.45	76.11
2004	67.50	69.20	66.60	66.20	65.20	79.08	76.70
2005	67.50	69.60	66.70	66.50	65.30	79.17	76.67
2006	67.80	69.70	67.00	66.60	65.10	78.93	76.45
2007	68.20	70.10	67.00	66.80	65.30	78.76	76.51
2008	68.90	71.20	67.00	67.50	65.70	79.63	76.67
2009	69.20	71.20	67.40	68.00	66.60	80.38	77.14
2010	69.10	71.30	68.40	69.20	66.90	80.08	76.95
2011	69.00	71.40	68.70	69.60	66.50	80.07	76.85
2012	69.10	72.00	69.20	70.70	67.20	80.36	77.43
2013	70.30	72.90	70.60	70.60	68.60	80.34	77.46
2014	70.50	73.80	71.00	69.60	68.60	80.90	78.00
2015	70.70	73.60	70.90	70.90	68.20	81.24	78.18
2016	71.00	74.80	71.10	71.10	68.20	81.17	78.13
2017	70.90	75.70	71.60	71.90	69.60	81.52	78.74
2018	72.40	76.70	73.00	73.50	69.80	81.20	78.64
2019	73.00	77.50	73.00	73.70	70.80	81.63	78.76
2020	73.40	77.50	72.50	73.70	70.70	82.20	79.44
2021	74.10	78.40	73.10	73.70	71.20	81.79	78.48
2022	74.00	77.30	72.50	73.50	71.40	82.02	80.06

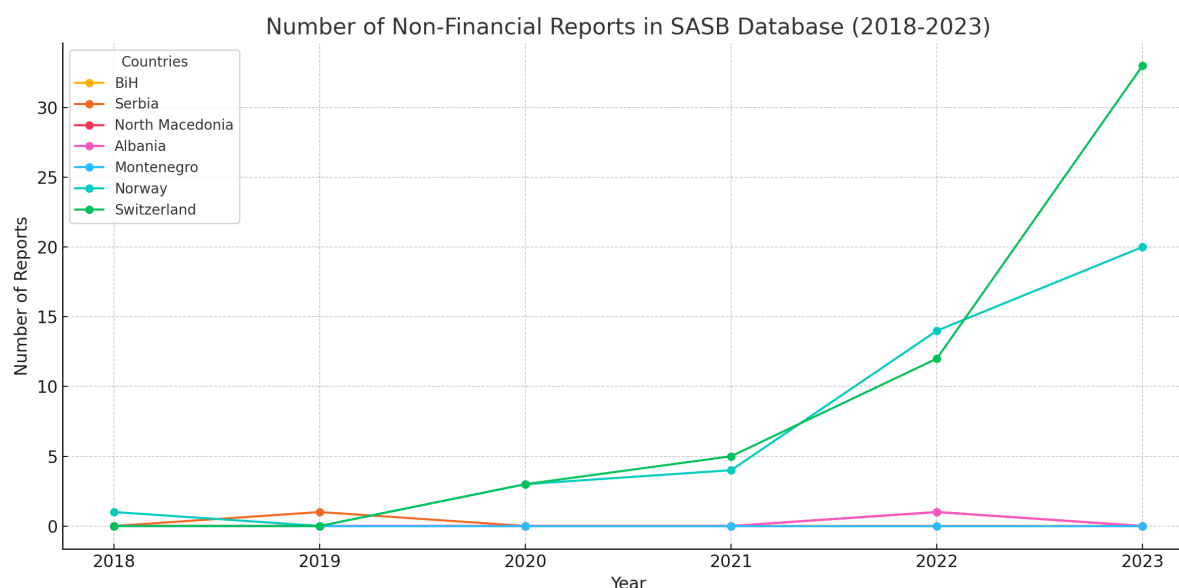
Source: Authors' processing according to Sachs et al. (2023)

When it comes to the environmental footprint per capita measured in global hectares (from the database <https://data.footprintnetwork.org/>), Bosnia and Herzegovina has the worst indicator for WB countries with 4.27, followed by Serbia with 3.83, while Albania has the best indicator which is 2.07. Data for Kosovo are not available.

Norway and Switzerland have a better SDG index than the Western Balkans countries due to their more advanced and stable economic systems, stronger institutional frameworks, and higher levels of political and social stability. Both countries have long-established regulatory frameworks and policies that prioritize sustainability, which are integrated into their national agendas. They also benefit from higher levels of investment in sustainable development initiatives, greater public awareness of environmental and social issues, and stronger cooperation with international organizations and corporations that are committed to sustainable practices. In contrast, the Western Balkans face challenges such as weaker governance structures, political instability, limited financial resources, and slower economic reforms, all of which hinder their progress in achieving the SDGs.

Sustainability Reporting in WB

In graphic 2, a comparative overview of the number of sustainability reports in the SASB database for a period of 6 years is presented for WB countries vs. Norway and Switzerland. From 2018 to 2023, among the WB countries whose companies reported on sustainability in the SASB database, only Serbia, Albania and Montenegro were recorded.



Graphic 2. Number of non-financial reports in SASB

Companies from Switzerland and Norway have a progressive increase in the number of reports published in the SASB database. Looking at the trends, we can see that the Western Balkan countries are significantly lagging behind other countries.

Analysis of the reasons for the lag in Western Balkan countries

On July 31, 2023, the European Commission adopted sustainability reporting standards ESRS. These standards have to be used by all companies based in the EU, or their branches, that are subject to the CSRD (Commission, 2023). The initial estimate is that the new requirements will affect more than 50,000 companies in the EU starting from 1 January 2024. A critical question is how such complex and extensive new regulations will affect and be relevant to the slow-transition, post-socialist economies of Western Balkan countries, given the varied timelines for progress among new EU candidate member states. That process is rather slow, or perhaps even stagnant at this point, and it falls outside the scope of our research focus and conclusions. In the meantime, companies especially medium-sized ones have a large foreign trade with the EU zone. They should be prepared to generate a highly standardized, systematic, and uniform way of the process of data collection on sustainability performance. This is the only way the reporting entities shall supply the required key sustainability performance data and associated complex databases ready for the reporting year. The further development of sustainability regulation in the EU shall have a much bigger impact on WB enterprise sectors regardless of the country's candidate status vis-à-vis the EU. Albania, North Macedonia, Montenegro, Serbia, and Turkey have the status of candidate countries, while Bosnia and Herzegovina and Kosovo are potential candidate countries.

The poor indicators of the SDG Index and ecological footprint reflect inadequate legislation in the countries of the WB. Financial reporting at the corporate level serves as a foundation for sustainable finance and banking operations, as exemplified by practices in Montenegro. It is based on the full implementation of the institutional framework promulgated by the International Federation of Accountants (IFAC). The process has experienced a significant slowdown in the transition towards a market economy and free democratic institutions. Regulatory bodies and institutions are still rather far away even considering the preparation, adoption, and simplified implementation of the IFRS. (Samardžić, Vuković & Ljutić, 2023). The EU Sustainable Finance

Disclosure Regulation (SFDR) establishes disclosure requirements to tackle greenwashing and ensure transparency in financial products (Partiti, 2023).

In WB countries, public and professional discussion on the future of corporate sustainability reporting, pertinent regulatory frameworks, and standards regarding full compliance with the existing and forthcoming regulations in the EU, as well as their transposition to the region, has not yet started at the institutional, professional, and public level (Jocović, Cvetković & Ljutić, 2022). WB countries have been rather slow in reaction to COVID-19, have been less affected by it, and have not been significantly involved in the Ukrainian war. Furthermore, climate change is not a top priority for public opinion, formal and informal elites, or lobby groups in the region. At the same time, inflation and the inflow of immigrants are dominating public debate. Meanwhile, the fields of business law, accounting, and auditing at the academic level emphasize the importance of the integral adoption of new EU regulations of corporate compliance regarding the environment, corporate governance, and corporate social responsibility, which is a good orientation and trend.

Corporate Law and Governance in WB – Two Possible Scenarios

The analysis of corporate law and governance regulation in the WB countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia), has taken a step further from the formal adoption of the new EU sustainability regulation. It now focuses on practical aspects of governance and reporting, such as the slowdown of the process and the reactions of large corporate polluters. A preliminary regulatory compliance study pointed out that there is an urgent and large need to focus on sustainable value creation. The next step and the long road ahead should be the inclusion of financial and sustainability reporting requirements at the regulatory level, with a focus on a range of ESG issues. This should be based on core EU regulations in a more practical sense, given that local legal systems are young, fragile, and rather oversimplified. Even the EU regulations themselves are still not fully effective and efficient (Jocović & Ljutić, 2023).

In WB countries, at both the professional and governmental levels, there is no clear-cut conclusion or understanding that the EU is firmly on the road to a sustainable transition. While new sustainability reporting regulations are in place in the EU, they have not yet been adopted in the Western Balkans. There are two alternative scenarios. The first, rather slim and not over-optimistic, is that the regulators will quickly introduce and implement new sophisticated sustainability regulations for the national economies. The second, more realistic scenario, is that the regulators will remain inert and make only cosmetic changes, which will in turn protect the status quo and prolong the indefinite sustainability transition.

WB countries should adopt emerging norms and best practices from the EU. However, new regulations are not even on the medium-term horizon, and market demands are almost non-existent. There is little to no real practice of reporting, and some of the sustainability reports are more inclined to be fairy tales, “boilerplate” statements, or even fall short of greenwashing. We assess that the companies in the region do not deploy strategies to meet their ESG reporting goals, as these targets are not set. The bulk and majority of investments are going directly under government control, and investors’ pressure for comparability is not palpable. Markets are not moving towards sustainability in WB. Our message is clear: regardless of the harsh and unwelcoming reality, the only way forward is to fully harmonize regulation at the national level in all WB countries with EU standards and regulations, strictly and without hesitation or reservation.

Sustainability Development Agenda in WB countries

The sustainability development Agenda for the WB countries refers to a series of strategies and goals aimed at achieving sustainable development in the region. One of them is the Green Agenda

for the WB, which was adopted in Sofia at the Summit for the WB in November 2020. The countries of the WB have pledged to switch to cleaner energy, reduce their dependence on fossil fuels, and improve waste selection, reduce the emission of greenhouse gases, etc. However, despite the declarative commitment of the WB countries to a sustainable transition, ESRS and CSRD were not adopted and consequently not applied, with no sign or hint of when they will be on the agenda of local parliaments and regulatory bodies. Slow and almost frozen progress of the candidate status of the individual WB countries is a strong limiting factor since the public skepticism towards joining the EU is increasing (Figure 1). Individual professionals, such as accountants, auditors, lawyers, and environmental experts, are not in a position to promote national regulations or influence parliamentary decisions and influence the adoption of regulations. Accounting, financial reporting, and auditing reforms supported by the Center for Financial Reporting Reform (CFRR) - World Bank are at the forefront of sustainability reporting in WB. At the same time at the individual country level sustainability reporting still does not involve the systematic measurement, disclosure, and communication of an organization's ESG performance. The accounting and auditing profession strongly supports the idea that sustainability reporting provides much-needed transparency and accountability to stakeholders (investors, customers, employees, public) regarding an organization's sustainability practices and their impacts at the firm level. In practice, there is almost no sustainability reporting, which in turn shall drive sustainable development by promoting responsible business practices. It aims to assist in identifying areas for improvement and fostering much-needed trust and credibility. CFRR is supporting regulatory bodies in the region providing guidance to governments on establishing institutional and regulatory frameworks for sustainability reporting, as well as ensuring the assurance of sustainability reporting in line with the requirements of EU legislation, particularly for EU candidate countries. At the same level, it is complemented by good international practices and international sustainability standards. Perspectives are in fostering a culture of sustainability reporting that contributes to the overall financial reporting reform agenda. The EU sustainability regulation has a dominant impact on WB, which is logical and good practice.

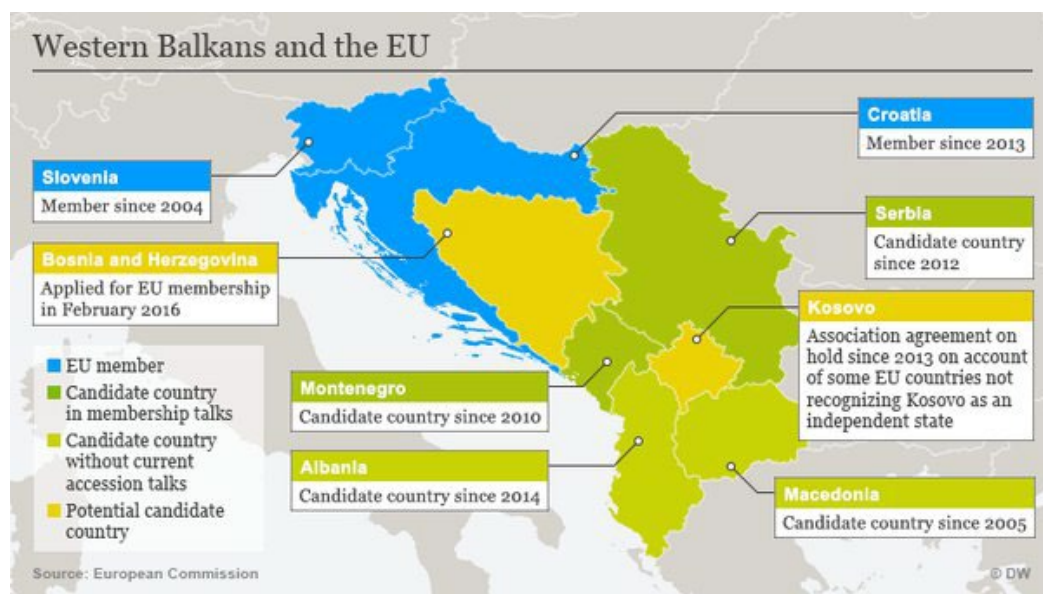


Figure 1. WB countries on the way to the EU

Source: <https://www.dw.com/en/eu-announces-ambitious-expansion-plans-in-western-balkans/a-42473497>

Western Balkans consists of the following countries: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. Croatia joined the EU in 2013, while all countries have

potential or actual EU membership status. Very strong additional external influence is from Russia, Turkey, China, the EU, and the USA.

Corporate Reporting - State of the Game in WB countries

The dynamics, reforms, and harmonization, first with the EU and then globally via the World Bank, IFAC, and International Accounting Standards Board (IASB), are slowing down due to many reasons we have pointed out before. At the same time, we consider the following important factors and determinants for the future course of action:

- Corporate reporting is the only solid foundation for ESG reporting. Non-financial reporting is deeply interconnected and intertwined with financial reporting - one is not possible without the other, like two sides of a paper banknote.
- All countries in WB fully implement the framework of IFRS and International Auditing and Assurance Standards (ISA), as a wide regulatory framework, but with different levels of sophistication and quality of implementation.
- Implementation is slow, and regulatory bodies place little emphasis on the quality of financial and assurance reports. Even less can be expected following the vague introduction of sustainability reporting regulation.
- ESG regulatory frameworks have not yet been established at the individual country level, as their development depends entirely on top-level political processes.
- Public opinion debate is rather lukewarm, not overheated at all, just the contrary.
- Political and economic elites and lobby groups pursue their agenda towards the control of real resources, viewing sustainability as a so-called "obstacle" in this strategic and operational course of events.
- The academic world is somehow lost in the vast array of EU regulations, there is no systematic and systemic long-term strategic approach, and the role of science is limited in society and public debate.

The European Commission (EC) is dealing with the corporate sustainability reporting regulation starting with the Non-financial Reporting Directive (NFRD) from 2014. Environmental matters and sustainability in general terms are important for the WB countries but it is not clear for whom, how, and when. Local non-governmental organizations (NGOs), environmentalists, and social activists are active, but the wheel of power is controlled by the economic and social elites, not much by the political public institutions and processes. Social justice matters and the fair treatment of employees are under increasing pressure facing efforts to be controlled and curtailed. Employees' rights are constantly under rising and unbearable pressure which consequently leads to the galloping emigration of skilled, professional, and well-educated employees to the EU. While the protection and respect of human rights are satisfactory in words, the situation with the trade union and human rights in practice is far less optimistic and promising. The fight against corruption, bribery, money laundering, and terrorist financing has been slowed down in recent years. However, new EU legislation is expected to increase pressure in these areas, raising expectations for the gradual implementation of sustainability reporting and assurance, albeit at a rudimentary level initially. Despite this, there is a glimpse of hope for progress in the future. The topic of diversity on company boards (e.g., age, gender, educational and professional background) has not been opened as an agenda item in Western Balkan countries, but there is a strong and increasing need for that.

In WB countries, corporate law is still passive and unresponsive to the growing need for sustainability and ESG reporting. Based on our initial findings, there is no practice except for mentioning the relationship in the EU (Sustineri, 2023). Law offices and consultancies are not heavily engaged in corporate law, governance as a solid foundation of sustainability reporting. We have analyzed initially a few rather rudimentary ESG reports, integrated reports, and

environmental reports at the country level. Most of them assessed the preliminary only preview analysis as resembling a "boilerplate" and "cut and paste report", with no mechanism to check the validity, let alone the assurance quality since there are almost no assurance reports. At the same time, we noticed a rising and drastic need for new know-how and practical skills in sustainability reporting. It is unclear to us how academic institutions and professional accounting organizations will act or react or if, when, and how they will take action. We are in favor of adopting a new integral framework for sustainability reporting. However, the bottom line here is the rising question of uncertainty when that will happen, with a proper selection of the narrow but forceful and effective core framework of regulation, adequate and up to the measure of the development and sophistication of young and weak national financial institutions and regulations.

Future of New Sustainability Regulation in WB

Fully aware of the constraints and the reality, as well as the critical needs and urgency to introduce sustainability regulation, reporting, and assurance in the Western Balkans, we are free to conclude the following:

- WB countries should adopt emerging norms and practices promulgated by the EU - not to their full extent, but adequate to the circumstances and needs of reforming economies with rudimentary economic institutions and regulatory bodies.
- Market demand for sustainability reporting practically does not exist, but there is a high expectation that it will increase as medium-sized enterprises cooperate with large corporations in the EU and globally,
- ESG goals have not been precisely set at the national level, but that should be done in a proper way and on time.
- Enterprises, as reporting entities, do not implement sustainability strategies and reporting, but they should do so as soon as possible, to create and implement them within their corporate strategies.
- Investments (foreign and domestic) are almost avoiding stock markets and this form of stringed and disciplined financial reporting is not a must for the reporting entities.
- Investors do not dominantly rely on financial reports and analytics, but mostly on real resources studies and due diligence reports (pre-feasibility, pre-investment studies, etc.)
- Investors do not exercise pressure for high-quality financial reports; therefore, it is less realistic to expect their interest in ESG reports.

CONCLUSION

The comparative analysis of progress trends in achieving SDG goals and the number of non-financial reports in the SASB database shows that the Western Balkans countries significantly lag behind other European countries that are also non-EU members. The comparison was made between the WB countries and Norway and Switzerland.

Considering the limitations and reality of the WB, we recommend the gradual adoption of sustainability norms promoted by the EU, adapted to the specific circumstances and needs of economies in the reform phase with basic economic institutions and regulatory bodies. Although there is currently minimal demand on the market for sustainability reporting, it is expected to increase, especially through cooperation with large European and global corporations. National levels of ESG goals should be precisely set, and companies as reporting entities should urgently implement sustainability strategies within their corporate strategies. Despite investments avoiding stock exchanges, the implementation of disciplined financial reporting as a necessity for reporting entities should be seriously considered. Although investors do not currently dominate financial reports and analyses, they mostly rely on real resource studies and due diligence reports

(pre-feasibility, pre-investment studies, etc.). Given the lack of investor pressure for high-quality financial reports, it is less realistic to expect their interest in ESG reports. Ultimately, the introduction of regulations, sustainability reporting, and ensuring compliance with European standards represent key steps towards strengthening sustainability in the region, improving business transparency, and attracting investments based on sustainability.

The shortlist of our recommendations is only stressing a few significant aspects for the enterprises:

1. Top management and owners should be proactive, constructive, and innovative. The worst strategy is to wait and see. It is much better to start some oversimplified implementation with the right tone at the top.
2. Enterprises and management should prepare in due time and start to think strategically.
3. Patiently waiting and seeing for the final legal & regulatory framework is not an option since the final solution does not exist, nobody knows what the future holds, in valid sustainability more than anywhere else.

Nature is changing, resources are increasingly scarce, and business operations are changing. Regulation and practice of ESG reporting are slow to respond to such drastic changes. We must remain aware of the dynamics and risks involved.

REFERENCES

- Ahern, D. (2023). The Sustainability Reporting Ripple: Direct and Indirect Implications of the EU Corporate Sustainability Reporting Directive for SME Actors (June 30, 2023). Forthcoming in A Bartolacelli (ed), *The Prism of Sustainability*, Available at SSRN: <https://ssrn.com/abstract=4517356>. Ž
- Ballou, B., Heitger, D.L., & Landes, C.E. (2006). The Future of Corporate Sustainability Reporting: A Rapidly Growing Assurance Opportunity. *Journal of Accountancy*, 202, 65.
- Basdekidou, V., Papapanagos, H. (2024). The Use of DEA for ESG Activities and DEI Initiatives Considered as "Pillar of Sustainability" for Economic Growth Assessment in Western Balkans" *Digital 4*, no. 3: 572-598. <https://doi.org/10.3390/digital4030029>
<https://www.mdpi.com/2673-6470/4/3/29>.
- Bosi, M.K., Lajuni, N., Wellfren, A.C., & Lim, T.S. (2022). Sustainability Reporting through Environmental, Social, and Governance: A Bibliometric Review. *Sustainability*. DOI: 10.3390/su141912071.
- CFRR -World Bank (2023). Available at: <https://cfrr.worldbank.org/focus-areas#sustainability-reporting> (January 23, 2024).
- Çürük, T. (2002). A REVIEW OF THE IMPACT OF THE EU HARMONISATION EFFORTS ON EU MEMBER AND NON-EU MEMBER EUROPEAN COUNTRIES.
- EC (2023). The Commission adopts the European Sustainability Reporting Standards. Available at: https://finance.ec.europa.eu/news/commission-adopts-european-sustainability-reporting-standards-2023-07-31_en (January 21, 2024).
- Giner, B., & Luque-Vílchez, M. (2022). A commentary on the "new" institutional actors in sustainability reporting standard-setting: a European perspective. *Sustainability Accounting, Management and Policy Journal*.
- Hijink, S., & Veld, L.I. (2019). Sustainability Reporting. *Organizations & Markets: Policies & Processes eJournal*. DOI:10.2139/ssrn.3436226.
- Horváth, P., Pütter, J.M., Haldma, T., Lääts, K., Dimante, D., Dagilienė, L., Kochalski, C., Ratajczak, P., Wagner, J., Petera, P., Pakšiová, R., Tirnitz, T.J., Sucalá, V.I., Sava, A., Buhovac, A.R., Bedenik, N.O., & Labaš, D. (2017). Sustainability Reporting in Central and Eastern European Companies: Results of an International and Empirical Study.

- Jocović M., Cvetković, P. & Ljutić I. (2022), Regulatory and Compliance Aspects and Inclusive Global Growth. International Scientific Conference Global Economic Trends, Challenges, and Opportunities. Belgrade: Union University – Belgrade Banking Academy.
- Jocović, M. & Ljutić, I. (2023). Corporate Governance and Sustainability: Theoretical Constraints for their Implementation in the Western Balkan Countries, Sustainable Development: Transition to Green Economy. Available at: <https://miceb.me/call-for-papers/miceb-book-of-abstract-e-issn.pdf> (January 26, 2024).
- Ljutić, I., Veledar, B. & Gadžo, A. (2023). European Sustainability Reporting Standards Lack of Progress, Alignment, and Harmonization in Western Balkans. ABIS Colloquium 2023. Navigating Multiple Transitions. Warsaw: Kozminski University.
- Lukšić, I., Bošković, B., Novikova, A., & Vrbensky, R. (2021). Innovative financing of the sustainable development goals in the countries of the Western Balkans. Energy, Sustainability and Society, 12. DOI: 10.1186/s13705-022-00340-w
- Milutinović, S., & Jocović, A. (2010). Building Capacity for Sustainability: Strategic Planning Processes for Local Sustainable Development Practices in Western Balkan. Lex Localis-journal of Local Self-government, 8, 293-311. DOI:10.4335/8.3.293-311(2010).
- Partiti, E. (2023). Addressing the Flaws of the Sustainable Finance Disclosure Regulation: Moving from Disclosures to Labelling and Sustainability Due Diligence (February 21, 2023). TILEC Discussion Paper No. 2023-05, Forthcoming in European Business Organisation Law Review, Available at SSRN: <https://ssrn.com/abstract=4387626> or <http://dx.doi.org/10.2139/ssrn.4387626>.
- Pizzi, S., Venturelli, A., & Caputo, F. (2024). Regulating Sustainability Reporting in Europe: De Jure Harmonisation or De Facto Standardisation? *Accounting in Europe*.
- Radukić, S., Petrović-Randelović, M., & Kostić, Z. (2019). Sustainability-based goals and achieved results in Western Balkan countries. Economics of Sustainable Development. DOI: 10.5937/esd1901009r.
- Raghavan, K. (2022). ESG Reporting Impact on Accounting, Finance. The Journal of Global Awareness. DOI:10.24073/jga/3/01/09.
- Randelović, D., & Đukić, T. (2018). HARMONIZACIJA RAČUNOVODSTVENE REGULATIVE NA PODRUČJU EVROPSKE UNIJE SA POSEBNIM OSVRTOM NA EU ZEMLJE CENTRALNE I ISTOČNE EVROPE. *Facta Universitatis, Series: Economics and Organization*.
- Sachs, J.D., Lafortune, G., Fuller, G., Drumm, E. (2023). Implementing the SDG Stimulus. Sustainable Development Report 2023. Paris: SDSN, Dublin: Dublin University Press, 2023. 10.25546/102924.
- Samardžić, R., Vuković, Z. & Ljutić B. (2023). Financial Reporting for Sustainable Finance and Banking in Montenegro. Available at: <https://miceb.me/call-for-papers/miceb-book-of-abstract-e-issn.pdf> (January 27, 2024).
- Sanfey, P., & Milatović, J. (2018). The Western Balkans in transition: diagnosing the constraints on the path to a sustainable market economy.
- Sustineri Partners (2023). Why is ESG relevant for the Western Balkans? Available at: https://www.sustineri-partners.com/?page_id=2181 (January 28, 2024).
- The European Green Deal, (2024). https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en.
- The European Parliament and the Council (2023a). Directive (EU) 2022/2464 of the European Parliament and of the Council of 14 December 2022. Corporate Sustainability Reporting Directive (CSRD). <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32022L2464>.
- The European Parliament and the Council (2023b). Sustainability reporting standards. <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32023R2772>.
- Van den Brink, T.W., & van der Woerd, F. (2004). Industry Specific Sustainability Benchmarks: An ECSF Pilot Bridging Corporate Sustainability with Social Responsible Investments. Journal of Business Ethics, 55, 187-203. DOI: 10.1007/S10551-004-1901-2.



<i>Article history:</i>	Received: 31.7.2024.
	Revised: 28.11.2024.
	Accepted: 9.12.2024.