March 2024

Executive summary

The Visegrád Group countries have primarily adopted a "stick" approach to drive sustainability disclosure, focusing on regulations and penalties rather than incentives. As a result, sustainability reporting remains limited, with companies perceiving it as burdensome and of little value. And while the countries in the region have recognised the importance of sustainability disclosure, regulatory frameworks often lag behind, relying more on “stick” punitive measures than “carrots” incentive-based policies. Additionally, limited awareness, resources, and harmonisation further hinder progress. However, these challenges present opportunities for collaboration and capacity building and an opportunity to shift towards a "carrot" approach, offering incentives for voluntary disclosure.

Implementing the "carrot" policy in the region could encourage companies to improve their ESG performance and disclosure. This would enhance transparency, build stakeholder trust, attract responsible investors, and foster sustainable business practices. Moreover, stock exchanges play a crucial role in driving sustainability disclosure by mandating reporting requirements and providing platforms for ESG data dissemination.

While challenges like standardisation and data collection persist, companies that embrace sustainability disclosure stand to benefit from enhanced reputation, better risk management, and improved access to capital. Therefore, it's imperative for stock exchanges and policymakers in the Visegrád Group countries to promote sustainability disclosure and incentivise companies to adopt responsible business practices. By doing so, they can meet the growing demand for transparency, accountability, and sustainability in today's business environment.

Introduction

Sustainability disclosures have become an increasingly important aspect of corporate reporting, providing stakeholders with valuable information about a company's environmental, social, and governance (ESG) practices and performance. ESG factors have started to gain importance in recent years, as investors and providers of financing start to introducing their own approaches and systems to manage financial risk linked to ESG performance. The Visegrád Group (V4) countries i.e. Czechia, Poland, Slovakia, and Hungary have witnessed a very rapid growth in market interest in ESG issues, mainly caused by the changes in EU regulations that require mandatory sustainability[1] disclosures.

This brief aims to assess the adoption of sustainability disclosures and the current state of corporate reporting in the V4 region. The goal is to explore why and how improved quality reporting can bring more transparency, facilitate the adoption of the Corporate Sustainability Reporting Directive (CSRD), and even unlock more investment capital. We also argue that shifting from "stick" (punitive) to "carrot" (incentive and reward-based) policies could bring further benefits and encourage companies to disclose voluntarily and the institutions like stock exchanges can also play a pivotal role in this change.

Sustainability disclosure benefits

Companies that embrace sustainability disclosure can enhance their corporate reputation by demonstrating their commitment to sustainable practices and responsible business conduct. Such efforts are aligned with what used to be activities and efforts under Corporate Social Responsibility (CSR), which has now been mostly integrated into ESG or sustainability efforts and reporting, which is more complex and includes the climate or environmental aspects, some of which need to be based on latest scientific knowledge and standards. It encourages companies to both reduce their environmental footprint and enhance social responsibility.

By disclosing ESG-related information, companies can

- **attract a more diversified set of investors,**
- **improve their reputation and use it for business or service line expansion,**
- **gain a competitive advantage in the market.**

Sustainability reporting also helps companies identify areas for improvement or increased efficiency and avoid stranded assets.

Transparent reporting of ESG performance can enhance a company's reputation and brand value, attracting customers, investors, and talent who align with its values and sustainability goals.

Companies that disclose ESG-related information are more likely to attract investors who need to meet their own sustainability goals and targets, and secure financing from banks and other financial institutions that need to prioritise ESG factors due to the regulatory pressures on their own reporting. For example, if companies disclose ESG data, financial institutions may find it simpler to issue sustainable instruments such as sustainability-linked bonds and loans, which

[1] In line with CSRD, we use mainly the terminology sustainability reporting and/or disclosure. The exceptions may in case of NFRD, which we wish to differentiate. Additionally, in certain context involving "information" and "data" we use ESG/non-financial. Throughout this brief, both terms are used interchangeably. We refrain from taking a stance on any differences in terminology within this brief.

require ESG-related KPIs and these can be only generated if companies already have relevant datapoints, which they would like to improve.[2]

Additionally, research by Rockefeller and NYU Stern found a positive relationship between ESG and financial performance over long-term horizon. The research also found that sustainability initiatives impact financial performance due to improved risk management and more innovation.[3] However, for this, the companies need to have the data, which they can obtain by collecting sustainability disclosure indicators.

Furthermore, according to the latest study by Morningstar more than two thirds of asset owners believe that ESG is material to their investment policies, and they are increasing their allocation into strategies, which take into consideration ESG.[4] This quite aligns with the growth of sustainable funds and allocations into them even though they experienced a level of underperformance. "Despite short-term fluctuations, investors with long-term horizons appear to be holding steady with patient capital in sustainable funds," says Jessica Alsford, Chief Sustainability Officer and CEO of the Institute for Sustainable Investing at Morgan Stanley.[5]

From the investors' perspective, investors are increasingly considering ESG factors when making investment decisions. Sustainability reporting provides investors with valuable insights into a company's long-term sustainability and risk profile. By incorporating ESG criteria into their investment strategies, investors can align their portfolios with their values and contribute to positive social and environmental outcomes.

Initiatives like the Principles for Responsible Investment (PRI) and the Task Force on Climate-related Financial Disclosures (TCFD)[6] exert pressure on companies to disclose their ESG performance, driving the adoption of the "carrots" policy. Additionally, companies that disclose comprehensive and accurate non-financial information are more likely to attract sustainable investment capital and there have a bigger financial access pool. For example, collecting various ESG metrics can serve as a foundation for issuing sustainability-linked instruments, which are derived from ESG data and aim to achieve set ESG-related KPIs.

Societal Benefits of sustainability reporting in the V4 region goes beyond financial considerations. It contributes to the overall well-being of society by promoting sustainable development, responsible business conduct, and social inclusivity. Sustainability reporting encourages companies to address environmental challenges, support local communities, and prioritise employee welfare. By integrating ESG practices into their operations, companies can contribute to the achievement of the United Nations Sustainable Development Goals (UN SDGs) and create a positive impact on society.

Overview of sustainability disclosure in the V4 countries based on data review

Sustainability disclosure refers to the reporting of ESG-related information by companies, providing transparency about the environmental or social performance of their operations. It encompasses a wide range of topics, including environmental impact, social responsibility,

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[2] https://www.sustainablefitch.com/_assets/special-reports/sustainability-linked-debt-ties-borrowers-to-esg-goals.pdf

[3] https://www.stern.nyu.edu/sites/default/files/assets/documents/NYU-RAM_ESG-Paper_2021%20Rev_0.pdf

[4] https://indexes.morningstar.com/insights/analysis/blt3274c5e922d86fef/voice-of-the-asset-owner-survey-2023-quantitative-analysis

[5] https://www.morganstanley.com/ideas/sustainable-funds-performance-demand#F0

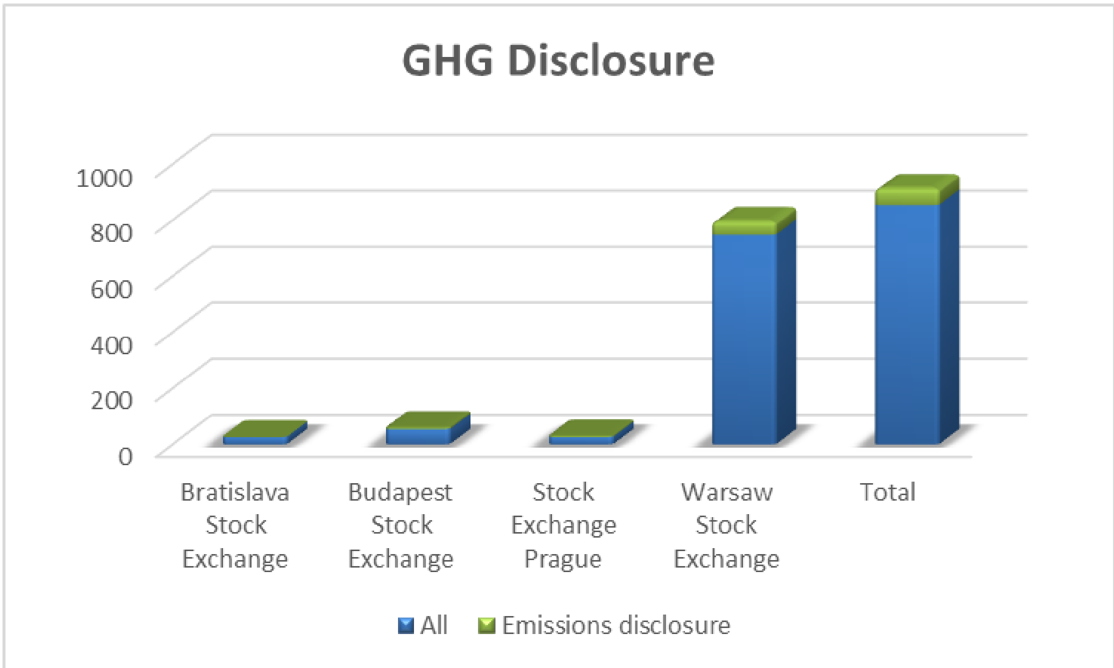
[6] During the COP 28 TCFD officially ended. All reporting will be done under the new ISSB Standard.

employee welfare, human rights, and corporate governance. This brief focuses on Greenhouse gas (GHG) emissions scope 1, which is the most frequently captured and reported datapoint in the environmental part[7]. Additionally, accounting for GHG emissions is often the first step in the environmental reporting process, and the one that should be material[8] to all businesses in Europe.

The companies in this brief were taken from stock exchanges operating in the V4 region. These are

- Bratislava Stock Exchange
- Budapest Stock Exchange
- Stock Exchange Prague
- Warsaw Stock Exchange

Unfortunately, based on the data provided by the exchanges in the V4 countries, sustainability disclosure remains rather limited - as we can see in the chart and table below.



Stock exchanges	All	Emissions disclosure
Bratislava Stock Exchange	26	0
Budapest Stock Exchange	54	7
Stock Exchange Prague	26	4
Warsaw Stock Exchange	748	48
Total	**854**	**59**

Source: Stock exchanges, reports, companies' websites, ISFC analysis

[7]Based on our research of the largest 1,000 of publicly traded companies.

[8] Double materiality is important for GHG emissions accounting not only because it considers the impacts of a company's operations on the environment but also the impacts of environmental factors on the company itself.

According to the data collected and reviewed based on our criteria[9] as of the end of November, there were zero companies that disclosed GHG scope 1 emissions listed on the Bratislava Stock Exchange. The Budapest Stock Exchange had seven companies with such disclosure, which amounts to almost 13%. Four companies were listed on the Prague Stock Exchange which amounts to about 15.3%, and 48 were listed on the region's biggest stock exchange, the Warsaw Stock Exchange. For the Warsaw Exchange, the number of companies with GHG disclosure equals approximately 6.4% of all companies. All of these companies reported scope 1-3 emissions for FY2021[10]. However, not all reported scope 2 market-based emissions, and there are a few which did not disclose the full value of their scope 3 downstream emissions.

If we look at overall sustainability reporting using TCFD[11] and CDP, the numbers are even lower, which may imply that there are only a few companies which consider ESG-related risks material, and which incorporate both historical and forward looking metrices into their strategy.

When it comes to the CDP Climate Questionnaire, the numbers of the disclosing companies increased over the years, but, except for Poland, the growth has been constrained. Additionally, Slovakia does not have a single company disclosing information to CDP.

	Czechia	Hungary	Slovakia	Poland
2023	6	8	0	35
2022	5	7	0	30
2021	5	4	0	20

Source: CDP, companies' websites, ISFC analysis

However, the numbers are much lower when it comes to science-based targets (SBTs) as defined by the Science Based Targets initiative (SBTi), which show companies how much and how quickly they need to reduce GHG emissions in order to prevent the worst impacts of climate change, but also to define their path towards decarbonisation.

	Czechia	Hungary	Slovakia	Poland
Committed	2	1	0	9
Targets set	2	4	0	12
Removed	0	1	0	1

Source: SBTi (as of 10/12/2023), ISFC analysis

[9] Primary listings, domestic companies
[10] FY2022, not fully available at the time of this report.
[11] TCFD numbers are no longer available, because during the latest COP (COP 28) the initiative was taken over by IFRS.

Regulatory status

In recent years, the V4 countries have recognised the importance of sustainability disclosure and have enforced various regulations and actions to encourage its adoption. Each country in the region has its own specific requirements and frameworks for reporting non-financial information, but these are still quite limited and mostly follow the practices stipulated by the EU. The slow pace of transposition of EU level sustainable finance regulation means that the local businesses have lower sustainable finance literacy and have not been prioritising sustainability disclosures.

As a result, in the future, this can create risk related to access to financing, investment, and refinancing, since the banking sector and investors will focus on companies with better risk management and those that can provide ESG-related information for that fulfils their own reporting needs.

Nevertheless, just like in other EU countries, there are investors and stakeholders in the V4 region already demanding greater transparency and accountability from companies regarding their ESG practices and data. In increasingly competitive global markets, the Central European countries need to do more in terms of encouragement and support of companies to report ESG-related information.

It has been shown that the EU often focuses more on the "stick" policies (punitive measures) than the "carrot" ones (positive, rewarding incentives), and the V4 countries are not different. One reason for the preference of the "stick" policy approach in the V4 region is the limited awareness and understanding of the benefits of incentive led policies, which are sometimes harder to calibrate accurately, must be applied selectively to achieve the intended impact while also avoiding unwanted effects.

As shown in the previous section, voluntary adoption of sustainability disclosure has been relatively low in the V4 region. Companies prioritise financial reporting and perceive sustainability disclosure as an added burden and of little value, since it is not significantly changing the terms of their refinancing. While the "stick" policy approach is designed to drive compliance and prompt companies to report comparable ESG data, the reporting is currently not matched with an enabling environment of tax incentives, green public procurement practices, or with ESG-related conditionality on EU funding. The "stick" policies that usually involve fines for non-compliance need to be accompanied with positive elements that reward the decarbonisation efforts, for example, speeding up financing for companies with GHG disclosure and transition plans or offering lower interest rates.

Another challenge that prevents better disclosure includes the lack of awareness and understanding of sustainability reporting requirements, limited resources and expertise, and the relatively nascent harmonisation of reporting frameworks. The implementation of CSRD will create a top-down pressure on all companies that wish to sell their goods or services to larger companies, and who seek financing from major financial institutions.

On top of that, collecting and verifying ESG data can add additional complexity and increase resource-intensive collection activities.

Nevertheless, these challenges also present opportunities for collaboration, knowledge sharing, and capacity building among companies, government agencies, and civil society organisations.

Case study: Residential energy efficiency financial instruments in Lithuania[12]

The Lithuania Energy Efficiency Financing Program, initiated by Lithuania's Ministry of Finance and Ministry of Environment, secures funding from various sources, including EUR 250 million from the European Regional Development Fund (ERDF) under the Operational Programme for EU Structural Funds Investments for 2014-2020. Additionally, up to EUR 705 million is contributed through co-investments from financial intermediaries and third-party investors. This program offers loans and guarantees to facilitate energy efficiency investments, with a thematic focus on supporting the transition to a low-carbon economy across all sectors (Thematic Objective 4). This case shows an effective first attempt to use public and EU financing for catalysing private capital to increase the overall investment volume available.

Implemented between 2015 and 2023, the programme centres on the Jessica II Fund of Funds, designed to finance loans dedicated to enhancing energy efficiency in apartment block buildings throughout Lithuania. The focus on apartment buildings also considers social inequality considerations, since flats in such buildings are owned by less wealthy parts of the populations in comparison to single family occupancy private properties.

Combining financial instruments with grants, the programme supports investments in energy efficiency within residential properties. The 'Modernisation Loan' is a central offering, complemented by grants covering technical support, interest rate subsidies, and capital rebates. **A streamlined 'one-stop shop' service model enhances program accessibility and effectiveness.**

Program outcomes (as of September 2020) are as follows:

- Total amount signed with final recipients: Approximately EUR 435 million
- Total amount disbursed to final recipients: Around EUR 390 million
- Number of loans provided for renovation of apartment block buildings: 1,456
- Number of apartments affected: Roughly 50,000
- Total apartment block area renovated: Approximately 2.4 million m^2
- Average energy savings per building: 64.5% or around 72.2 kWh/m^2
- Average amount of thermal energy saved: 410 GWh per annum
- Average reduction in carbon emissions: 95t CO2 per annum

This case shows the power of a holistic approach that combines public and private financing and is streamlined in a user-friendly way. Importantly, the calculation of the programme's impact allows the government to highlight the positive outcomes for a range of stakeholders: financing institutions, businesses involved in delivering the renovation work, and the citizens whose energy bills are lower and property values are higher.

[12] Adapted from https://www.fi-compass.eu/library/case-studies/residential-energy-efficiency-financial-instruments-lithuania

Case study: CEZ Group in Czechia and sustainability reporting

Below is a case study of CEZ Group (CEZ) and their sustainability reporting practices. CEZ was selected because of their sustainability approaches and sustainability reporting practices including its readiness for CSRD reporting, based on publishing Sustainability, TCFD, and SDG reports. Additionally, the group also responded to the CDP questionnaire and set various targets in environmental, social, and governance spheres. These targets are presented in their Sustainability report, which was prepared in line with Global Reporting Initiative (GRI) Standards 2021, the Sustainability Accounting Standards Board's (SASB) standard for electric utilities and power generators, and the World Economic Forum (WEF) metrics and disclosures. Selected targets include:

- Reduce greenhouse gas emissions in line with the Paris Agreement well below 2°C from 0.38 tCO2 e/MWh in 2019 to 0.26 tCO2 e/MWh in 2025[13] and 0.16 tCO2 e/MWh in 2030.[14]
- Transform their generation portfolio to a low-emission one in line with the Paris Agreement by 2030 and achieve climate neutrality by 2040.

Additionally, the group is planning to gradually phase-out coal-fired power plants by 2038 the latest.

- Reduce the share of coal-fired electricity generation to 25% by 2025 and 12.5% by 2030.
- Transform coal-fired locations into new lower-carbon or no-carbon fuels such as natural gas, biomass, and hydrogen.

Coal was the second most widely used source of energy, with first being nuclear. At the moment, usage of photovoltaic, wind, and biomass sources is insignificant.

The group's strategy also includes an endorsement of the agenda set by the 17 Sustainable Development Goals (SDGs) with the main focus on these six:

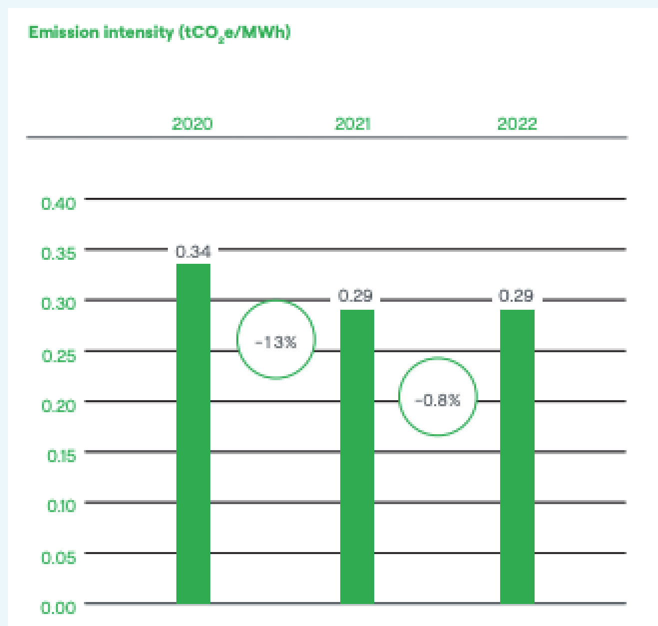
Environmental:	SDG 7 SDG 13	Affordable and Clean Energy Climate Action
Social:	SDG 8 SDG 10	Decent Work and Economic Growth Reduced Inequalities
Governance	SDG 5 SDG 16	Gender Equality Peace, Justice and Strong Institution

[13] The company issued sustainability-linked bonds to achieve this target.
[14] This target has been validated by SBTi.

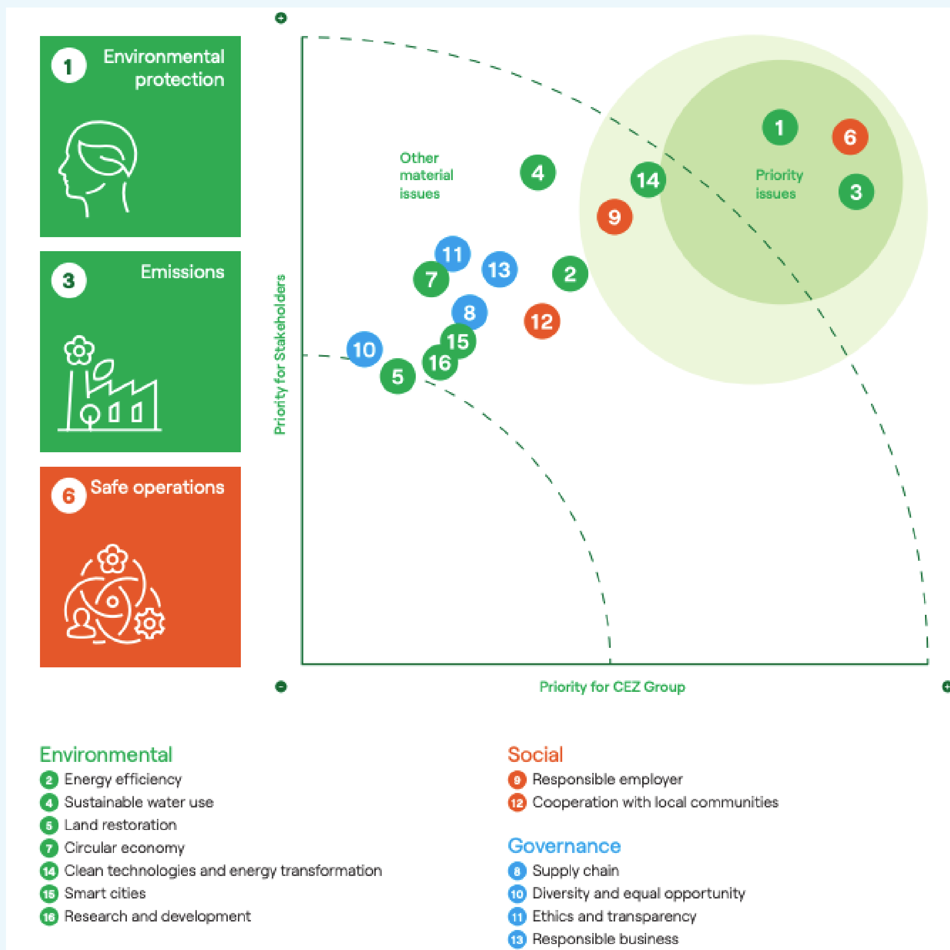
The group obtained external reasonable assurance for their GHG emissions from Bureau Veritas (BV) and external limited assurance from Ernst & Young (EY) for these items:

- Employees (by gender, by employment contract)
- Work-related injuries (number of fatalities, number of work-related injuries)
- Programmes for upgrading employee skills and transition assistance programs
- Diversity of governance bodies and employees (by gender, by age)
- Average hours of training per year per employee
- Energy consumption within the organisation (fuel consumption from non-renewable/renewable sources; energy sold)
- Water withdrawal (focus on surface water)
- Water discharge (focus on surface water)
- NOx, SOx, and particulate matter (PM)
- Waste generated
- Significant spills

In terms of GHG emissions, these are reported in line with independently verified emissions under the EU Emissions Trading System (EU ETS) for a substantial part of Scope 1. CEZ uses GHG Protocol for the remaining part of Scope 1, Scope 2, and Scope 3. The emissions reporting includes splits by countries, but also scope 3 emissions have the relevant subgroups. Additionally, the group provides information on emission intensity reduction in tCO_2e/MWh:



The Sustainability report also includes materiality matrix and assessment with priority points for stakeholders and the company. The main points, which were identified are Environmental protection, Emissions, and Safe operations.



The group also provides information on major activities related to sustainability. These include but are not limited to the membership in the Business Ambition for 1.5°C campaign, establishment of dedicated ESG Office, ESG committees, launch of ESG education for all board members and selected top management, but also signed a Memorandum on Cooperation in Climate Protection, the Energy Sector, and Certain Related Areas.

Although reporting on biodiversity is still rather limited, the group reports on biodiversity indicators such as sites of biodiversity importance, habitats protected or restored and status.

Overview of major local[15] regulations and actions with focus on sustainability reporting and sustainable finance

All the V4 countries have transposed Non-Financial Reporting Directive (NFRD), despite the significant degree of diversity at national levels. While this is important this brief is rather focused on local laws and regulations, which would support sustainability reporting more broadly. Nevertheless, when it comes to NFRD all countries follow *comply or explain* principle and Czechia, Hungary, and Poland also enforce the *safe harbour* principle to ensure compliance. All countries, but Slovakia, also follow a minimum requirement to check if the information of sustainability reporting has been provided. On the other hand, only Slovakia requires the statutory auditor to check if the provided information is consistent with the financial statements in addition to the minimum requirement.[16]

Czech Republic

The Czech Republic has made progress in implementing ESG related regulations and plans, including provisions to the sustainability reporting, especially in relation to CSRD, but the proposition does not go beyond minimum transposition, yet. Additionally, under the Accounting Act (transposed NFRD), public companies with more than 500 employees must disclose certain types of non-financial and diversity information in their annual reports. Apart from this the sustainability reporting is largely voluntary. The Ministry of Industry and Trade is the responsible for overseeing the National Action Plan for Corporate Social Responsibility (NAP CSR). The aim of this plan is to set the basic groundwork for the dissemination and promotion of corporate social responsibility (CSR) principles. The first version of the CSR NAP was developed for the years 2011-2014. The latest updated was in 2018 and it was approved by the Government for the years 2019-2023 (Czech only)[17]. Additionally, the Czech National Bank issued guidelines on ESG reporting for financial institutions, emphasising the integration of ESG factors into risk management and investment decision-making processes.[18] The Prague Stock Exchange has also issued guidelines on sustainability reporting, which are very detailed and provide a comparison of reporting standards and obligations and also an introduction into best practices and interoperability of those standards and obligations.[19] Comparing to the other countries in the region, and similar studies, this one is very detailed and goes far beyond the bare minimum of what is ESG and the basics of sustainability reporting.

Hungary

Hungary has taken steps to enhance ESG related practices and disclosure requirements. A draft if Law on the Rules of Environmentally Conscious and Societally and Socially Responsive Corporate Social Responsibility Reporting Promoting Sustainable Finance and Unified Corporate Responsibility was submitted to parliament on 14 November 2023. The failure to comply would

[15] Local in this context means those, beyond the EU regulations and provisions.

[16] Accountancy Europe, 2020: Towards Reliable non-financial information across Europe

[17] https://www.mpo.cz/assets/cz/podnikani/spolecenska-odpovednost-organizaci/2018/4/Narodni-akcni-plan-CSR---12-dubna-2018_1.pdf

[18] https://www.cnb.cz/en/financial-stability/sustainable-finance/esg-reporting/

[19] https://www.pse.cz/userfiles/related_documents/cs/ESG-Guidelines.pdf

result in minimum fine of HUF 1 million or a maximum fine of 10% of the undertaking's turnover in the previous full year as reported in the last annual financial statement.[20]
Additionally, the Hungarian Sustainable Finance Platform was established by the Central Bank of Hungary (Magyar Nemzeti Bank or MNB) to promote sustainable finance and encourage ESG integration. The platform aims to facilitate dialogue between financial institutions, regulators, and other stakeholders to drive sustainable investment in the country. Furthermore, the MNB for its green finance strategy, considers including sustainability reporting datapoints to be part of disclosure, because they could support the development and expansion of the green financial segment.[21] This led to development of the Green Bond Issuance Guide in 2022.[22] Additionally, the MNB set a precedent by reporting non-financial information using TCFD recommendations, to encourage institutions to conduct voluntary reporting. Furthermore, the MNB carried various initiatives like training, knowledge sharing, removing data gaps and established Directorate for Sustainable Finance, which could help enhance sustainability reporting. In 2021, the MNB published Green Preferential Capital Requirement Programme for Corporates and Municipalities, which encourages banks to evaluate environmental risks when assessing their impact on operations and their financing portfolios using measurable and reliable indicators and methods in accordance with the recommendations of TCFD. On top of that, in 2021 the National Assembly granted the central bank a green mandate, under which the MNB supports the government's policy on environmental sustainability. The MNB also supports institutional actors in understanding and applying the legislation. [23] In 2021 the Hungarian Stock Exchange issued ESG Reporting Guide, which like in the case of similar publications from other exchanges, provides an introduction into ESG and reporting to increase the sustainability reporting.[24]

Poland

Poland has recognised the importance of ESG related factors and has implemented various initiatives to promote sustainable practices. Although the Polish Financial Supervision Authority (PFSA) has not yet issued any announcements or position papers on ESG, and there are no legislative processes underway to introduce more demanding requirements than those set out in EU regulations, this year the Warsaw Stock Exchange has published ESG Reporting Guidelines: Guide for Issuers[25], which provides a step-by step guide into the EU regulations and reporting. Furthermore, already in 2009, the exchange introduced the RESPECT Index, which is Central and Eastern Europe's first socially responsible (SRI) index. The index includes companies demonstrating high ESG standards as set by the exchange and include both ESG and non-ESG related aspects.[26] in 2021, the exchange together with the Polish Corporate Governance Forum also launched the "Best Practices Guidelines for Listed Companies"[27] initiative, encouraging companies to disclose ESG-related information and providing guidance on reporting standards.[28]
One of the latest initiatives the Warsaw Sustainable Segment[29], which is a section on the exchange website, where information on sustainable debt will be listed. This initiative aims to encourage issuance of sustainable debt instruments and is an addition to the Green Bond Framework from 2016, issued by the State Treasury of the Republic of Poland, which was based

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[20] https://www.lexology.com/library/detail.aspx?g=091176e4-2c96-401f-aa01-e71006295ace
[21] https://www.mnb.hu/letoltes/green-finance-in-hungary-consultation-paper.pdf
[22] https://www.mnb.hu/letoltes/mnb-zold-kotveny-utmutato.pdf
[23] NMB, 2023: Green Finance Report
[24] https://sseinitiative.org/wp-content/uploads/2021/04/ESG-Reporting-Guide_final_ENG.pdf
[25] https://www.gpw.pl/pub/GPW/ESG/ESG_Reporting_Guidelines.pdf
[26] https://www2.deloitte.com/pl/pl/pages/zarzadzania-procesami-i-strategiczne/articles/respect-index-2.html
[27] https://www.gpw.pl/dobre-praktyki2021
[28] https://www.gpw.pl/responsible_business_in_poland
[29] https://www.gpw.pl/news?cmn_id=114051&title=GPW+Launches+Warsaw+Sustainable+Segment

on the ICMA Green Bond Principles.[30] Considering that most of the sustainable instruments issued at the V4 markets are unlabelled, the Warsaw Sustainable Segment could provide more clarity, increase the issuance of labelled instruments and improve the sustainability reporting of companies, which issue these instruments.

Slovakia

Slovakia has been working on strengthening ESG regulations and practices, but comparing to the other countries in the region, it is doing the bare minimum. This is also reflected in reporting practices and sustainable finance endorsements. Additionally, the Bratislava Stock Exchange is not part of the Sustainable Stock Exchange Initiative (SSE). In October 2023, a draft law implementing CSRD was submitted for consultation.[31] The most active actor in the sustainability-related risk space trying to scale up the sustainability related agenda, is the National Bank of Slovakia (NBS), or NBS.

"Stick" policy in the V4 region

The V4 region is heavy on the "stick" or punitive policies, which means a focus on regulations, laws, and measures to drive a change, instead of supplying incentives and support. This is even more prevalent, when we look at approach to sustainability and related disclosure where the V4 countries depend extensively on the EU proposed regulations and implement them in their local laws, but do not go much beyond those. This was illustrated above, where this brief demonstrated that in most of the instances there were very few regulations and the focus was more on recommendations, but not in much in terms of incentives or support. Given the very limited encouragement and support from the governments to increase sustainability disclosure and make a change, a very few companies are disclosing ESG data as shown by our research. On top of that, most of the regulatory provisions are focused on the large and listed companies. And while sustainability is a shared concern, the countries differ in their approaches to balancing financial and sustainability disclosure. However, recognising these policy preferences and fostering dialogue can facilitate collaboration and knowledge-sharing among the V4 countries to promote sustainable development and responsible business practices.

Understanding the "carrot" or rewarding policies and the role they can play in the V4 region

The "carrot" policy is an incentive-based approach, employed by governments to encourage companies to voluntarily disclose their ESG practices. Instead of imposing strict regulations or penalties, this policy offers various incentives and benefits to companies that demonstrate transparency and accountability in their sustainability reporting. We believe that by implementing the "carrot" policy in the V4 region presents a significant opportunity for companies to prove their commitment to sustainability and responsible business practices. The "carrot" policy promotes transparency by encouraging companies to disclose their ESG performance. This enables stakeholders, including investors, customers, and employees, to make informed decisions based on reliable and comparable data.

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[30] https://www.gov.pl/web/finance/issues-international-bonds

[31] https://www.kinstellar.com/upload/CSRD_CEE%20Implementation_update_Dec2023.pdf

Some of the positive aspects of the “carrot” policies, also applicable to the V4 region

Improved Stakeholder Engagement: Sustainability reporting under the “carrots” policy facilitates better engagement with stakeholders. By providing comprehensive information on environmental impact, social initiatives, and governance practices, companies can build trust and strengthen relationships with stakeholders.

Access to Capital: Companies that adopt the “carrots” policy and demonstrate strong ESG performance are more likely to attract investment capital. Investors increasingly consider ESG factors when making investment decisions, and companies with robust ESG practices are seen as more resilient and sustainable in the long term.

Competitive Advantage: The “carrots” policy enables companies to differentiate themselves in the market by showcasing their commitment to sustainability. This can lead to a competitive advantage, as consumers and clients increasingly prefer to engage with companies that prioritise ESG considerations.

The “carrots” policy in the V4 countries could have a positive impact on corporate sustainability disclosure, because by offering incentives and rewards, companies are motivated to improve their ESG performance and disclose relevant information. This increased transparency then enhances stakeholders trust, attracts responsible investors, and fosters sustainable business practices. Moreover, sustainability disclosure enables companies to identify and address potential risks, leading to improved long-term performance and resilience.

The role stock exchanges[32] can play in the future of the sustainability disclosure

Stock exchanges play a pivotal role in the financial markets and have the potential to drive change by promoting sustainability disclosure within their issuers, for example, by listing requirements that mandate companies to disclose ESG-related information. By doing so, exchanges create a level playing field and encourage companies to adopt sustainable practices. This not only enhances transparency but also helps investors make informed decisions based on a company's ESG performance. Additionally, they can also help ensure long-term sustainability practices not only in line with local objectives, but also the Paris Agreement. Moreover, according to Krueger et al. “mandatory ESG disclosure has beneficial capital market effects by improving stock liquidity, but also that such mandates need to be implemented and enforced well”.[33]

To enhance disclosure of companies, increase transparency and provide additional information to investors, exchanges should consider mandatory sustainability reporting of their issuers. As it was mentioned before the sustainability disclosure provides investors with a holistic view of a company's operations, risks, and opportunities. Exchanges that require ESG reporting enable investors to assess the long-term sustainability of their investments. By providing standardised

[32] Stock exchange and exchange are used interchangeably in this section.
[33] Krueger et al. 2023: The Effects of Mandatory ESG Disclosure Around the World

and comparable ESG data, exchanges contribute to greater investor confidence and facilitate the allocation of capital towards sustainable businesses.

Additionally, exchanges can serve as platforms for companies to disclose their ESG data. By providing centralised repositories for ESG information, exchanges make it easier for investors, analysts, and other stakeholders to access and analyse these data. This accessibility promotes transparency and accountability, enabling investors to evaluate a company's ESG performance and make informed investment decisions.

Exchanges can also contribute to the standardisation and harmonisation of sustainability disclosure practice by establishing reporting frameworks and guidelines to ensure that companies disclose relevant and comparable ESG information. This standardisation facilitates benchmarking, trend analysis, and the integration of ESG factors into investment strategies. It also reduces the reporting burden on companies by providing a clear framework to follow.

Additionally, by introducing sustainability indices or ESG-focused investment products, exchanges encourage companies to improve their ESG performance and differentiate themselves in the market. These can help investors to prioritise companies, which focus on sustainability and reduce risk, improve performance, etc. For companies, this could mean attracting capital and interest from investors. Furthermore, it could encourage, companies not on such index to disclose more information to be included.

In terms of the V4 countries, three of the stock exchanges are part of the SSE initiative, which made it its goal to promote ESG disclosure and performance among listed companies. However, as mentioned above, not all the exchanges are part of the SSE and the members: Budapest Stock Exchange, Prague Stock Exchange, and Warsaw Stock Exchange mainly focus on ESG guidance issuance and ESG related training. Regrettably, none of the three exchanges, which are part of SSE, require ESG reporting for listed companies. On top of that, Budapest Stock Exchange and Prague Stock Exchange do not have sustainability-related indices, nor do they offer sustainability bond listings.[34] In case of the Warsaw Stock Exchange, in 2019 the exchange launched the Warsaw Sustainable Segment, which presents information on sustainable debt instruments listed on the markets.[35] In terms of sustainability related indices there is RESPECT index, mentioned in detail in the section above and WIG-ESG Index, which includes 60 of the largest and most-liquid securities trading on the exchange.[36] However, there is very little in terms of other best practices, which were listed above.

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[34] https://sseinitiative.org/stock-exchange/bse_hungary/ , https://sseinitiative.org/stock-exchange/prague/

[35] https://www.gpw.pl/news?cmn_id=114051&title=GPW+Launches+Warsaw+Sustainable+Segment

[36] https://www.etfstrategy.com/warsaw-stock-exchange-launches-poland-esg-equity-index/

Conclusion

Sustainability disclosure is gaining momentum in the V4 region, driven by regulatory requirements, investor and large client demand, and Western-based stakeholder expectations. The export-led economies of the V4 countries run a high risk by not implementing disclosures, especially at a time when large corporates and banks are under pressure to disclose their green asset rations, financed emissions, and supply chain emissions for manufactured goods.

While challenges with standardisation of interpretations and data collection persist, companies that embrace sustainability disclosure stand to benefit from enhanced reputation, better risk management, and improved, more secure access to capital going forward - in light of an increased financial institutions' demand for ESG data, especially carbon emissions and other environmental performance related factors. Sustainability disclosure is no longer an optional practice for companies; it has become a necessity in today's business environment.

Stock exchanges and shifting mindset from "stick" to "carrot" play a vital role in promoting and facilitating sustainability disclosure by establishing listing requirements, providing access to ESG data, and both recognising and rewarding companies that excel in sustainability practices. As stakeholders increasingly prioritise ESG factors, exchanges must continue to evolve and drive the adoption of sustainability disclosure practices to meet the growing demand for transparency and accountability. Additionally, the V4 countries have an opportunity to strengthen their commitment to sustainability disclosure and related business practices.

Recommendations for improved sustainability disclosures in the V4 countries:

- Transposition of CSRD, embedding the disclosure regime into the national legal frameworks (for example, accounting laws for simplification and standardisation of the approach and reporting).
- Encouragement of voluntary sustainability disclosures by local governments, but also the main financial market players like stock exchanges.
- Adoption of green budget tagging to better understand the transition needs and to monitor public and EU funding flows, and whether they support decarbonisation or sustainable economic activities by using the EU taxonomy (for example, as a start, exploring the approach of green budget tagging adopted by Austria).
- Expanding efforts by state institutions to improve the information flows about sustainable finance implementation and disclosures under the EU Sustainable Finance framework (for example, creating cross-country and cross-sectoral series of discussions or capacity building sessions with experts).
- Setting a country-wide strategy for a transition to net zero along with a financial plan (for example, learning from the Independent Review of Net Zero).[37]

[37] https://assets.publishing.service.gov.uk/media/63c0299ee90e0771c128965b/mission-zero-independent-review.pdf

- Signalling by governments of the trajectory of the transition and the incentive regime that rewards and supports financially and policy-wise companies, financial institutions, and municipalities that have credible transition plans with key performance indicators related to emission reduction and just transition.
- Creation of national and regional sustainability data hubs that explore best data collection practices and identify the greatest legal obstacles to environmental data sharing, combining research and data analytics, which are relevant to the region, but align with the EU wide regulations.
- Creation and maintenance of cross-ministerial and multistakeholder policy dialogue platforms that have a working programme focused on implementation of the disclosure regimes and regulatory adjustment.
- Fostering stakeholder engagement to enhance collaboration and enhance expertise and knowledge by actively supporting and organising events focused on sustainability implementation in practice.

DISCLAIMER

The views expressed in this work represent those of the authors only and do not necessarily reflect any other institution's or funder's perspective nor any of the experts consulted.

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