

**SUSTAINABILITY CODE IN BULGARIA: CONCEPTUALIZATION,
MODELS, PERSPECTIVES**

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(1) Introduction

“Sustainability Code”, though not a specific term or document, is broadly applied. There may be different sustainability codes in different contexts or organizations. Typically, these codes represent a set of principles, guidelines and standards that aim to achieve sustainability, i.e., a balanced satisfaction of current needs that is maintained without compromising the ability of future generations to meet their own needs (Brundtland, 1987). A sustainability code may include principles and practices related to environmental, economic and social aspects (Elkington, 1997). For example, it may promote efficient use of energy and resources, conservation of nature and biodiversity, promotion of social justice and equality, respect for workers' rights, etc. Various international organizations have developed and are implementing such sustainability codes. For example, the United Nations (UN) has the Sustainable Development Goals (SDGs), which are a comprehensive framework of 17 goals covering various aspects of sustainability, such as poverty alleviation, education, health, environmental sustainability, etc. Nation-level organizations, such as the German Council for Sustainable Development¹, and supranational bodies, such as the European Union, likewise define values, principles and practices that they and their partners are expected to follow in order to achieve sustainability in their activities; these terms are articulated in specific sustainability codes or frameworks, which include quantitative and qualitative indicators used for registering and reporting achieved sustainability. Many businesses and organizations are also establishing their own sustainability codes and/or codes of conduct in line with sustainability values.

Thus, a sustainability code can be broadly defined as a complex and multifaceted document or set (framework) of principles that promote responsible and sustainable behaviour in different areas of life, including environmental, economic and social aspects. This framework of principles, and indicators measuring compliance with these principles, can be used as a sustainability reporting tool by

¹ Rat für Nachhaltige Entwicklung (RNE). The German Council for Sustainable Development is an advisory body that has advised the German Federal Government on sustainable development policy since 2001. Members of the Council are appointed by the Federal Government every three years. The Council is independent in its activities. Its members are 15 public figures from the spheres of civil society, business, science and politics. In addition to its advisory functions, the Council carries out its own projects to promote sustainable development. It initiates political and social dialogue on sustainable development. It operates the Internet database and resources of the German Sustainability Code.



business companies. The Global Reporting Initiative (GRI)² is considered the first sustainability reporting tool/platform. It was founded in 1997 by the sustainable development organization CERES (Coalition for Environmentally Responsible Economies)³ together with the UNEP (United Nations Environment Programme)⁴. Since then, GRI has been developing and improving company sustainability reporting standards that are now widely used around the world. This paper uses the German Sustainability Code's set of principles and corresponding data to develop a Bulgarian framework for sustainability reporting by business companies. I propose a model for a Bulgarian sustainability reporting framework as I am convinced this will provide, to the greatest extent possible, Bulgarian entrepreneurs with a powerful tool for their active engagement in the development, advocacy and implementation of all aspects of sustainability in Bulgaria. The presentation of a way of non-financial reporting that is in accordance with the German Code in its entirety, and the formulation of a Bulgarian reporting model can contribute to "illuminating" the business environment in Bulgaria. My aim is to appeal to Bulgarian economic actors to move towards sustainability reporting, as doing so will add reputational value to their economic performance.

2) General characteristics of the German Sustainability Code

The Sustainability Code⁵ is an internationally applicable framework of sustainability-related standards for reporting on quantitative and qualitative indicators and aspects of business organizations' performance.

² GRI is headquartered in the Netherlands, and is the world's leading corporate sustainability reporting initiative, working with hundreds of companies and organizations around the world. (Source: <https://www.globalreporting.org/>)

³ CERES (Coalition for Environmentally Responsible Economies) is a non-governmental organization founded in the United States in 1989. CERES aims to promote corporate responsibility and sustainability by working with institutional investors, companies and other stakeholders. The organization is known for its Investment Principles for Sustainability (CERES Principles), which are designed to encourage companies to consider environmental and social factors in their business activities. Similar to the Global Reporting Initiative, CERES also works with many companies and investors to improve their sustainability reporting practices and encourage transformation to more sustainable business models. In addition to the Global Reporting Initiative, CERES has created other innovative initiatives to promote sustainability in business, including the Climate Declaration, Investor Network on Climate Risk (INCR), Business for Innovative Climate and Energy Policy (BICEP), etc. (Learn more about CERES on the Internet website <https://www.ceres.org/about-us>).

⁴ UNEP (United Nations Environment Programme) is an international organization that operates under the auspices of the United Nations and aims to promote sustainable development and environmental protection. UNEP was founded in 1972. The organization works with governments, the business sector, civil society and other stakeholders around the world to promote the sustainable use of natural resources and environmental protection. The organization is known for its many initiatives and programs promoting sustainable development and environmental protection, including the Global Environment Outlook, Climate and Clean Air Coalition, REDD+ Partnership, World Environment Day, and many others. (More about UNEP on the Internet website: https://www.unep.org/resources/annual-report-2022?gclid=CjwKCAjwhdWkBhBZEiwA1ibLmEhVHQkvH5aQ3ysHrMa2y8LbW93CCRkUQsPMemgWQJOVhwstrSh15RoCXJ8QAvD_BwE)

⁵ In the text, it will also be referred to as the "Sustainability Council", or more briefly, "Council". You can read more about the German Sustainability Council on its website: <https://www.nachhaltigkeitsrat.de/>,

The German Council for Sustainable Development (Rat für Nachhaltige Entwicklung - RNE) adopted the Sustainability Code on 13 October 2011 after numerous discussions and consultations with a large number of stakeholders. Following its successful implementation in Germany and the adoption of the European Directive on Non-Financial Reporting by Companies (2014/95/EU)⁶, the German Sustainability Code is now established as a standard for companies at European level as well⁷. The Code is a "work in progress", i.e., the concept and related documents are in a continuous process of updating and development⁸. In each successive update of the Code, the aim is to achieve greater progress and compliance with all aspects and considerations of sustainability in industry and trade, as well as progress in the establishment of companies and the transparency of their activities. Since Directive 2014/95/EU became part of German law⁹, the non-financial reporting obligation has applied to companies and corporations with more than 500 employees for all financial reporting years after 31 December 2016.

Companies subject to mandatory reporting must publish reports for each financial year via a non-financial (consolidated) compliance statement or a non-financial (consolidated) report in which they provide information on non-financial aspects of their business. The Sustainability Code may be used to prepare such non-financial (consolidated) compliance statements or non-financial (consolidated) reports in accordance with the CSR Directive Implementation Act. But statements and reports are not identical categories.

Following the relevant legislative changes, the German Federal Government has pointed to the Sustainability Code as an appropriate framework for companies to use in support of mandatory reporting, but above all as a stand-alone tool for voluntary sustainability reporting. Through the Code and its explanatory notes, the aim of the Council is to provide companies with clear guidance on the content and process of non-financial statements/social reports in relation to the obligation to report non-financial information related to sustainability and Directive (2014/95/EU). Updates to the Code, the explanatory information and the lists of indicators for assessing compliance, ensure that companies implement the European CSR Directive.

However, the Code is a practical tool even for those companies and organizations that do not have a reporting obligation under the Directive. All companies and organizations wishing to do so can provide such information voluntarily by reporting on measures relating to the various environmental, social and economic aspects of sustainability.

The main advantage of the Code is its concise and user-friendly form. It provides companies of all types (micro, small, medium and large) and with various legal formats with a practical framework for reporting on sustainability and governance.

⁶ More about the European Directive on Non-Financial Reporting by Companies (2014/95/EU) at <https://eur-lex.europa.eu/legal-content/BG/TXT/PDF/?uri=CELEX:32014L0095>.

⁷ Information on the implementation of the German Sustainability Code in Turkey, Greece and other countries can be found on the website: <https://www.nachhaltigkeitsrat.de>

⁸ One of the latest updates was made in response to the CSR Directive Implementation Act, ratified by the Bundestag in early 2017 through amendments to the German Commercial Code (HGB) and the German Companies Act (AktG).

⁹ In March 2017, the Directive was transposed into German law through the CSR Directive Implementation Act. The reporting obligation applies to certain companies and corporations for all reporting years after 31 December 2016.



Its structure and focus on the most relevant sustainability and “good corporate governance” issues are central strengths of the Code.

The standardized presentation of information improves the comparability of the information reported, making it suitable for use by different market participants as a component in the assessment of the companies’ overall performance. By publishing a statement of compliance with the Code, companies create a trusted source of information that can always be relied upon when public bodies or business partners address questions to them.

The German Council promotes a holistic view of sustainability and sustainable development; this is evident from the content of the Code and the procedure for its implementation in company practice. In the declaration of compliance with the Code, through the Code’s 20 criteria, companies report on their strategies, objectives, measures, policies and risks. Performance indicators support the information provided and allow for greater comparability of the declarations. Companies' measure of the report’s contribution is how relevant the information is to understanding the course of a company’s business, business outcome, position in the market, and the impact of its business operations on the relevant aspect of sustainability. The report also includes economic-sector specific explanations for and additions to each of the aspects or performance indicators relevant to each specific business¹⁰.

The Compliance Statement is complemented by a brief description of the company's business model, preceding the explanations related to the 20 Codex Criteria. Crucially, anyone can access the Sustainability Code database free of charge at www.sustainabilitycode.org in order to find assistance when preparing the compliance statement. The practical use of the Code has shown that, due to the large number of medium-sized companies and public institutions, a significant group of users produce reports voluntarily. The motivations beyond mandatory reporting are most often related to: the desire of the management of the company concerned to practice transparent (for investors) and highly professional corporate governance (good corporate governance)¹¹; the desire for entrepreneurial differentiation; and market expectations related to various aspects of sustainability. These trends in company motivation are expected to grow stronger in the future. Some additional incentives are the increasing role of supply chains and the interest of companies subject to mandatory reporting in the process of consolidating information coming from different companies. In order to improve the coverage and usability of Code compliance filings, e.g., by rating agencies and the financial market, the Code database offers a variety of interfaces that allow linkage to other databases. In addition, the declarations can also be useful as a source of high-quality background information on the company concerned, sought by business partners and stakeholders. Sustainable business governance requires superior corporate governance (good corporate governance), which goes beyond mere compliance with legal requirements. This is not only the subject of wide public debate in Germany, but is also enshrined

¹⁰ For example, a detailed list (glossary) of precise definitions of key terms is provided in the guidelines for the preparation of the Code Compliance Statement.

¹¹ German Council for Sustainable Development. 2019. A guide to the Sustainability Code. Guidance for the first-time users.

in the corporate governance codes of many European countries¹². The German Corporate Governance Code (GCGC), formulated by the Federal Regierungskommission, plays a special role in this respect¹³.

Table 1: The most important international standards that define sustainability principles in relation to corporate governance

<ul style="list-style-type: none">- OECD Guidelines on Multinational Enterprises - The ten principles of the UN Global Compact - UN Guiding Principles on Business and Human Rights - International Labour Organisation (ILO) core labour standards - The International Organization for Standardization (ISO) Social Responsibility Guidelines for Organizations and their Sustainable Management Standards (ISO 26000 and ISO 14001) - The Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) and the European Federation of Financial Analysis Organisations (EFFAS). - The EU tools:<ul style="list-style-type: none">o The Non-Financial Reporting Directive (Directive 2014/95/EU) ¹⁴o EU taxonomy for reporting on companies' climate-neutral activities¹⁵o Sustainability Reporting by Business Directive (Directive 2021/0104(COD))¹⁶

Source: German Sustainability Code website, GRI, and own research on public reporting resources

(3) Bulgarian sustainability reporting framework

As was pointed out several times in this text, sustainability reporting, also known in the EU as non-financial sustainability reporting or corporate sustainability reporting, is the process of collecting, assessing and reporting information on the social, environmental and governance (SEG) aspects of an organization's activities.

¹² The National Code of Corporate Governance in Bulgaria can be found at: https://nkku.bg/images/pdf/CGCode_April_2016_BG.pdf

¹³ The German Corporate Governance Code presents the basic legal provisions for the governance and supervision of German companies; it contains, in the form of recommendations and suggestions, internationally and nationally recognized standards for good and responsible corporate governance. More at: <https://dcgk.de/en/>

¹⁴ Source: Internet page of the European Commission.

¹⁵ REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 establishing a framework to facilitate sustainable investments and amending Regulation (EU) 2019/2088

¹⁶ This Directive, adopted on 16 November 2022, amends previous legislation relating to sustainability reporting by companies in the EU, such as Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, and in relation to sustainability reporting by companies.



These dimensions can be translated into framework indicators and used to assess, and report on, the sustainability of an organization. Based on the literature reviewing sustainability reporting frameworks (systems), I propose below a list of the most common main themes and their associated indicators. Each of the themes and indicators represent dimensions of sustainability in business. This list of dimensions is not exhaustive; it covers the main areas most commonly included in the framework's indicators:

- 1. Environmental sustainability:
 - Greenhouse gas emissions
 - Water quality and waste management
 - Energy efficiency and use of renewable energy sources
 - Biodiversity and sustainable use of natural resources
- 2. Social sustainability:
 - Equality and diversity in the workforce
 - Occupational safety and health
 - Social responsibility and impact on society
 - Values and ethics of the organization
- 3. Economic sustainability:
 - Financial performance and results of the organization
 - Investment in sustainable technologies and practices
 - Sustainable supply chain and supplier management
 - Innovation and development of products and services
- 4. Management sustainability
 - Risk management and continuous improvement of sustainability
 - Collaboration and partnership with stakeholders
 - Measuring and reporting the results of sustainable practices
 - Sustainability and risk management strategies.

Similarly to the German Sustainability Code, the Bulgarian framework may include 20 indicators, with the first 10 focusing on the sustainability policy of the respective company, as the information related to them presents and takes into account the extent to which the activities and economic behavior of the respective business company or public organization outline a more holistic corporate concept of sustainability (i.e., to what extent the company/organization operates and is managed in an economically sustainable way). The second group of ten indicators represents the other two main dimensions of sustainability - environment and society - as directly related to the economic activities of the business company/organization.

Table 2: Principles (indicators) of the Bulgarian corporate sustainability framework

Corporate sustainability factor: STRATEGY
01 Strategic analysis and strategic actions
02 Economic activity
03 Company objectives
04 Scope of supply chains
Corporate sustainability factor: MANAGEMENT PROCESS
05 Allocation of responsibility
06 Policies and procedures
07 Control

08 Incentive systems
09 Stakeholder interaction
10 Innovation and product management
Corporate sustainability factor: ENVIRONMENT
11 Use of natural resources
12 Resource management and recycling practices
13 Climate-related emissions
Corporate sustainability factor: SOCIETY
14 Workers' rights
15 Equal opportunities
16 Training and Qualifications
17 Human rights
18 Communities
19 Political influence
20 Conduct in accordance with laws and regulations

Thus, it may be summarized that there are four main themes of sustainability - 1) the nature and strategy of the company operating in a specific economic area (economic sustainability); 2) the process of managing the activity, including its material nature (resources, materials, supply processes, production and distribution) (economic sustainability and good governance) 3) the environment (environmental sustainability) and 4) society and related social and societal relations, activities of the organization inside as well as outside (good governance). This understanding is mainly based on the model of the German Sustainability Code, which has been studied for years (Jeleva 2022). These four main dimensions can be used as a basis for building indicators for the sustainability reporting framework in Bulgaria.

Of course, Table 2 presents only one possible framework; however¹⁷, I believe the indicators in this set are mandatory. Their number could be larger, and it is possible to include quantitative and qualitative indicators specific to the sectors/economic activities concerned. Those shown above describe the minimal number of sustainability factors. At the same time, they are also the most commonly referred to in existing frameworks, such as the Global Reporting Initiative (GRI), or EU Directives. Other sustainability reporting models are also possible.

Institutionalizing a Bulgarian sustainability code may involve the following five steps:

1. Adoption of legislation;
2. Establishment and/or adoption of standards and guidelines;
3. Training and awareness promotion;
4. Establishment of a regulatory body or monitoring mechanism;
5. Enhancing cooperation with stakeholders.

These steps can help institutionalize non-financial sustainability reporting in Bulgaria and support sustainable business and development in the country as a whole.

(4). Conclusion

¹⁷ In the course of its own empirical study, conducted in the period 2022-2023 with in-depth interviews with experts in the field of sustainability, a wealth of empirical data was collected on whether and how a sustainability code is possible in Bulgaria. This data can not be discussed within the scope of this report, but will be published soon in the future.



The Bulgarian Sustainability Code sets a clear framework for reporting on the environmental, social, economic and good corporate governance aspects of sustainability. The Code provides Bulgarian entrepreneurs with a powerful tool for their active engagement in the development, advocacy and implementation of sustainable development in Bulgaria, for increasing the reputational value of their business and for illuminating the overall economic environment in the country. In order to institutionalize non-financial sustainability reporting, it is important to create appropriate legislation. A framework of principles set out in a Bulgarian Sustainability Code can and should be part of such legislation. Moreover, in a few years' time, several dozen Bulgarian companies will have to comply with a new type of reporting standards on issues for which they have either not yet provided reports or have not had to provide public and standardized information in connection with the entry into force of the EU Corporate Sustainability Reporting Directive. Setting clear standards and guidelines for non-financial reporting will help organizations understand how to measure and report on their sustainability practices. A regulatory body or monitoring mechanism could be established to ensure compliance with legislation and standards. This body could have the responsibility to verify non-financial reporting and take action in case of breaches. One of the key steps for the successful institutionalization of non-financial sustainability reporting is collaboration with stakeholders. This includes dialogue with businesses, NGOs, academic institutions, and others, to ensure that sustainability reporting meets the needs and expectations of society. Organizing training and awareness campaigns will help businesses and other stakeholders understand the importance of non-financial reporting, and how to implement it effectively.

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