

ESG - a new challenge for smaller companies

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The year 2025 brings a new, disruptive obligation for Romanian companies: The preparation of sustainability reports, also known as **ESG reports** (for “Environment, Social, Governance”).

By the end of 2026, all Romanian companies with more than 50 employees whose turnover exceeds RON 50 million and/or whose assets exceed RON 25 million (at least two of the three criteria mentioned must be met) must prepare sustainability reports. These reports must describe the impact of the company's activities in 2025 on the environment, society and corporate governance. The European Commission has developed uniform standards as part of the **CSRD Directive** (CSRD stands for “Corporate Sustainability Reporting Directive”) to provide guidance on how these sustainability reports must be structured.

By 2025, around 5,000 companies in Romania will be obliged to provide this reporting, and many times more across Europe. However, it will not stop there, as these companies will in turn demand comparable data and reports from their suppliers faster than many expect. This requirement will spread across the entire supply chain, meaning that many smaller companies will also have to take action quickly. Furthermore, the quality of the reports will be a key criterion for banks when granting loans and setting the conditions.

What needs to be done for ESG/CSRD?

This reporting is disruptive because there is a wealth of new rules to comply with, which often causes confusion at first glance, as it is not always immediately clear how they interlock. Sustainability reports are often understood as an annual overview of the emissions caused by a company. However, they go far beyond this: all environmental and social impacts on a company, but also the company's impact on the environment and society, as well as the company's management behavior, must be evaluated. This dual approach is called “double materiality”. And the assessment should not only take place once a year, but should be constantly running and accessible in the background, just like accounting and financial planning.

The following steps are recommended:

1. Defining a structure in the company: which areas are affected, what risks exist, who is responsible for the topic, who has to work with this department?
2. Create a long-term sustainability strategy, with measurable non-financial targets and indicators, and clear priorities.
3. Data management: what data is needed, where it comes from, how often and in what quality it must be provided and processed?
4. Regular evaluation of processes, data and progress.

The European Commission has published a series of thematic standards (**ESRS**) to standardize the reports. A total of 82 individual points must be processed, in extreme cases with over 1,000 data points. Companies can decide for themselves which sustainability aspects are relevant to them, but must be able to justify this in a comprehensible manner.

The standards required for reporting are not yet complete. There are no sector-specific standards or separate standards for SMEs, which are to be submitted in the coming years. Reporting will then also be mandatory for smaller companies.

Elements of the reports include, for example, the company's resilience and opportunities in connection with sustainability aspects, concrete measures to prevent, mitigate or remedy negative impacts, a description of the main risks to which the company is exposed in connection with sustainability aspects, planned and implemented measures to mitigate risks, as well as the topics of corporate ethics and corporate culture, including the fight against corruption.

In the first year, in which the strategy and the first edition of the report are created and the processes and data first have to be structured, you should allow around six months for implementation - depending on the size and complexity of a company, of course. Due to the variety of aspects to be reported, in practice almost all departments of a company will be involved.

Conclusion

ESG reporting in accordance with the CSRD rules is new for everyone, not just in Romania. Therefore, there could still be a certain tolerance on the part of the authorities in the first year. However, less tolerance is to be expected from companies that want to avoid any prior charges from suppliers in their supply chain or from banks, which will increasingly make lending dependent on the availability of a correct and complete report. It is therefore important to start preparing CSRD-compliant reports in a timely manner.

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