



# 2<sup>nd</sup> Draft CSR Compendium

Public policies in the European Union

Walter Kahlenborn, Jutta Knopf

(Co-authored by Moira Feil, Romy Fiedler, Thomas Hajduk, Johanna Klein, Daniel Weiss)

By order of



2nd DRAFT

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## List of abbreviations

<b>CCC</b>	Committee on Climate Change
<b>CDM</b>	Clean Development Mechanism
<b>CRC</b>	Carbon Reduction Commitment Energy Efficiency Scheme
<b>CSR</b>	Corporate Social Responsibility
<b>Danida</b>	Danish International Development Agency
<b>DCCA</b>	Danish Commerce and Companies Agency
<b>DECC</b>	Department for Energy and Climate Change
<b>Defra</b>	Department for Environment, Food and Rural Affairs
<b>DfID</b>	Department for International Development
<b>DG</b>	Directorate-General
<b>ECAP</b>	Environmental Compliance Assistance Programme
<b>EMAS</b>	Eco-Management and Audit Scheme
<b>EMS</b>	Environmental management system
<b>ERDF</b>	European Regional Development Fund
<b>ESG</b>	Environmental, social and governance
<b>ETI</b>	Ethical Trading Initiative
<b>ETS</b>	Emissions Trading Scheme
<b>EU</b>	European Union
<b>FSC</b>	Forest Stewardship Council
<b>GDP</b>	Gross Domestic Product
<b>GHG</b>	Greenhouse gas
<b>GPP</b>	Green Public Procurement
<b>GRI</b>	Global Reporting Initiative

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<b>HR</b>	Human Rights
<b>HLG</b>	High-Level Group of Member States Representatives
<b>IAPMEI</b>	Institute of Support of Small and Medium-sized Enterprises and Investment
<b>I-CSR</b>	Italian Centre for Social Responsibility
<b>IIP</b>	Industrial Innovation Projects
<b>ILO</b>	International Labour Organization
<b>INAIL</b>	Italian Workers' Compensation Authority
<b>JI</b>	Joint Implementation
<b>KfW</b>	Kreditanstalt für Wiederaufbau
<b>kWh</b>	Kilowatt hour
<b>MEE</b>	Ministry of Employment and Economy
<b>MNE</b>	Multinational enterprises
<b>NAP</b>	National Action Plan
<b>NCP</b>	National Contact Point
<b>NGO</b>	Non-governmental organisation
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PADES</b>	Support Programme for the Development of Social Economy
<b>PII</b>	Projects of Industrial Innovation
<b>PPP</b>	Public-private partnership
<b>PRTR</b>	European Pollutant Release and Transfer Register
<b>RAGS</b>	Responsible and Accountable Garment Sector
<b>RespEn</b>	Responsible Enterprise
<b>RSCM</b>	Responsible Supply Chain Management
<b>SBRI</b>	Small Business Research Initiative
<b>SCM</b>	Supply Chain Management

<b>SEE</b>	Social, environmental, ethical
<b>SEMCo</b>	Swedish Environment Management Council
<b>SMEs</b>	Small and medium enterprises
<b>SPIN</b>	Sustainable Production through Innovation in Small and Medium sized Enterprises in the Baltic Sea Region
<b>SPP</b>	Sustainable public procurement
<b>SRI</b>	Socially responsible investment
<b>SRPP</b>	Socially responsible public procurement
<b>UK</b>	United Kingdom
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNPRI</b>	United Nations Principles for Responsible Investment
<b>US</b>	United States

# 1 Introduction

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## 1.1 CSR made in Europe

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Ten years after first appearing on the European Union (EU) agenda, Corporate Social Responsibility (CSR) has become a well-established concept 'whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis' This business-friendly approach is expected to support smart, sustainable and inclusive growth as stated in the Europe 2020 Strategy. Indeed, CSR was adopted by ever more companies, investors and business schools over the past decade, while civil society, academia and media also became increasingly familiar with the topic. It is particularly in the wake of the financial and economic crisis that CSR is more relevant than ever as calls for more responsible business are heard and rebuilding trust is a top priority among businesses in the Western world.

Despite being en vogue CSR also remains an inherently abstract concept. It conveys a wide variety of meanings. This variety stems from the dynamic, context-dependent and holistic nature of CSR. It is dynamic because it evolves constantly to meet changing demands in complex environments. It is context-dependent since it draws on and needs to be embedded in different historical and cultural traditions. This becomes evident particularly in Europe where there was a tradition of CSR-relevant institutions (referred to as 'implicit CSR') long before the concept of CSR was discussed explicitly. CSR is also holistic as it embraces and connects various issues from the economy, society and environment. In order to become more concrete, CSR needs to be actively pursued and applied by business, society and government.

Given this great abstract nature and adaptability of CSR, governments all over Europe strive to harness its potential for public policy goals, as can be seen in the variety of CSR supporting policy frameworks (see chapter 1.3.2). Besides the US, European countries were among the first in the world to adopt public policies in order to promote CSR among their businesses. Some of the world's most innovative and renowned CSR public policies originated in European countries such as the United Kingdom (UK), France or the Scandinavian countries. In 2006 and 2007 the European Commission took stock of these policies and published two editions of 'Corporate Social Responsibility: National public policies in the European Union'. These Compendiums provided rich information on the Member States' approaches to CSR and thus reflected the dynamic, context-dependent and holistic nature of CSR in Europe.

More than three years after the second Compendium's publication CSR has evolved, as have public policies and much of the social and economic context of CSR.

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## 1.2 About this Compendium

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This Compendium is meant to update the existing Compendiums by taking account of recent public policies on CSR in the 27 EU Member States and the European Union. By doing so it shows both continuity and change relative to its predecessors. This concerns the structure, methods, scope and purpose of the publication.

### Structure

The new Compendium marks a departure from the original structure which was essentially a country overview; in its current version the Compendium is structured according to CSR topics. Eight topics were identified together with the European Commission and the Corporate Social Responsibility High-Level Group of Member States Representatives (HLG), and thus reflect recent priorities and trends in CSR public policies. These topics are: the general CSR supporting policy frameworks including national CSR action plans and strategies, socially responsible supply chain management with particular emphasis on human rights, CSR reporting and disclosure, the potential of CSR in tackling climate change, CSR in small and medium enterprises (SMEs), socially responsible investment (SRI), CSR and education, and sustainable public procurement. Some of these topics overlap. For instance, some disclosure requirements are relevant for both CSR reporting and SRI. Likewise, the introduction of social clauses may effect responsible supply chain management as well as sustainable public procurement. In such cases, the particular public policy will be presented in both chapters, yet with a different focus.

This introduction also describes the general approach to CSR in EU Member States and the European Commission. By contrast each of the following chapters will be devoted to one of the identified topics. Each of them will begin with a short overview of recent developments and main points of discussion and then give an account of the Member States' and the European Commission's main public policies for which a particular typology will be used (see below). Throughout the text good practice examples will be presented to highlight innovative and unique CSR public policies among EU Member States. Each presentation will conclude with a look at notable initiatives that are scheduled to take effect after the date of publication. The annex offers an integrated country overview for those readers who prefer searching the Compendium by Member State. The country overview takes the form of a synopsis which covers all Member States and briefly highlights main examples of their initiatives, including a reference to the respective section in the Compendium.

### Typology of public policies

Within each chapter public policies will be presented following a well-established typology of instruments for promoting CSR, which was introduced by Reinhard Steurer from the University of Natural Resources and Life Sciences in Vienna. Five different types of instruments are identified. Legal instruments apply legislative, executive and judicial powers to mandate CSR practices; laws, directives and binding regulations are examples of this instrument type. Economic and financial instruments make particular use of financial incentives and market forces, for instance taxes, tax abatements, subsidies and awards. Informational instruments primarily disseminate knowledge

about CSR, as for instance campaigns, trainings and websites. Partnering instruments aim at voluntary cooperation between government, business and relevant stakeholders; examples include stakeholder forums and negotiated agreements. Finally, hybrid instruments combine two or more of the aforementioned instruments. CSR centres, for instance, can be both informational and partnering, and CSR action plans usually consist of and coordinate all four types of instruments.

The merit of every typology depends on its consistent and clear application. Therefore the following two clarifications are noteworthy. First, this Compendium considers public initiatives only. Nonetheless, partnering instruments often include non-governmental actors and sometimes take the form of explicit public-private-partnerships. If a public-private partnership focuses on one of the eight CSR topics and if a Member State plays a significant role in this partnership then it will be presented in this Compendium. A significant role is defined as when the government is primarily responsible for financing, convening, informing, training or driving the partnership. Second, the identification of hybrid instruments can be difficult. If two or more types concur it depends on their relation whether they are declared a hybrid instrument. If multiple instrument types have equal weight in the initiative in question then this would be a hybrid instrument, for instance a stakeholder forum that aims at both partnership and the dissemination of information. If a public policy is dominated by one type then it would be classified according to the prevailing type. Thus a forum that is only convened with the aim of steering an informational campaign will be found under 'informational instruments'.

### **Method**

The information gathered for this Compendium is based on broad research. Apart from extensive literature and web research and input from HLG Member State Representatives, a variety of stakeholders were consulted. These stakeholders comprise EU-wide or international organisations such as the United Nations (UN) and various stakeholder organisations. This approach integrates a broad variety of stakeholder perspectives and thus reflects the dynamic, context-dependent and holistic nature of CSR in general and European CSR in particular. At the same time the consultants could not access all information in all European languages. The survey of HLG members aimed to compensate this by asking all Member States for input on their initiatives during the research period.

### **Scope of research**

The previous Compendiums gave the first comprehensive overview of CSR-related public policies in Europe, stretching back as far as to the 1990s. Therefore updating is not equal to replacing them. The new Compendium is rather supposed to take account of how ongoing CSR public policies have developed since 2007 and which new public initiatives have been launched. Public policies dating back to 2007 or earlier will only be named when necessary for understanding the context of current initiatives. As a consequence readers interested in the wider historical context of European CSR initiatives are invited to consult the previous Compendiums and to regard the current version as a complement, not a replacement.

## Purpose of this Compendium

Finally, the new Compendium was written for two reasons. On the one hand, it should serve as a reference book for all those who are engaged in CSR. Public administrators, politicians, CSR professionals, stakeholder activists and academics will all find useful information on a large scope of public policies across the EU Member States. On the other hand, the eight topical chapters of the Compendium give an impression of what could be considered as a European approach to CSR. By virtue of its organization by topic rather than by individual Member States the Compendium enables all readers to gain a more holistic picture of current European practices in any given field of CSR as presented here. Combined with the good practice examples this Compendium is tantamount to a state of the art of European CSR policies.

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## 1.3 CSR supporting policy frameworks in the EU

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This chapter provides an overview of the general approaches to public policies on CSR adopted by EU Member States. Usually it is CSR action plans or strategies which illustrate a government's approach to CSR. Although these documents form the basis of this chapter, it should be noted that many Member States have no action plan or a strategy but do have a strong record on CSR. In these cases the chapter refers to supporting documents such as laws, government reports or strategies that have been recently passed or published.

However, before turning to Member States' CSR approaches we set out the activities of the European Commission.

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### 1.3.1 CSR supporting policy framework of the European Commission

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Since the turn of the millennium the European Commission has been an active player in promoting CSR across EU Member States. In its two CSR communications from 2002 and 2006 it laid the foundation for a common understanding of CSR in Europe which itself was aimed at helping to deliver the objectives of the (revised) Lisbon Strategy. Since 2006 the Commission has committed to numerous initiatives to support CSR. These initiatives were aimed at one of the eight priority areas outlined in the 2006 communication on CSR: awareness-raising and good-practice exchange, support for multi-stakeholder initiatives, cooperation with Member States, consumer information and transparency, research, education, SMEs, and the international dimension of CSR. More recently the new Europe 2020 Strategy developed a vision of how the EU can be turned into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion. It identified CSR as a key element in ensuring long-term employee and consumer trust.

Of the large number of European initiatives, some were instrumental in reviewing and further developing CSR policies and identifying new priorities. Partnering instruments have been playing an important role in this respect. In February 2009 the Multi-stakeholder Forum on CSR convened for a plenary meeting. More than 250 key

stakeholders met to review the progress made on CSR in Europe and to discuss future initiatives. From September 2009 to February 2010 a series of five multi-stakeholder workshops on company disclosure of environmental, social and governance (ESG) information took place in Brussels (see chapter 3.3). The different stakeholder views on these issues provide input for the three priorities of the upcoming communication on CSR in 2011.

Studies conducted for the Commission provide input as well. In September 2009 the School of Law at the University of Edinburgh was awarded a tender to study the 'legal framework on human rights and the environment applicable to European enterprises operating outside the European Union'. With this study the Commission aims to provide a basis for possible measures to further operationalise the UN 'Protect, Respect, Remedy' framework put forward by the Special Representative of the UN Secretary-General on Business and Human Rights, Professor John Ruggie. The final report was published in [2010]. Under the Swedish Presidency of the European Union, Professor Ruggie was invited to an EU-sponsored conference on the UN Framework in November 2009. Two further studies were conducted for the Commission in 2010. The first deals with the state of the art in CSR reporting in the EU by describing reporting from readers' and companies' perspectives and analysing reporting schemes. The second study provides an overview of issues with regard to responsible supply chain management for which CSR has not yet provided a solution. For this purpose it applies the UN Framework. Both studies were completed in [December 2010].

Apart from this conceptual work on the approach to CSR, the Commission launched two initiatives to support the new Member States that joined the EU in May 2004 and January 2007, respectively. From December 2006 to May 2008 United Nations Development Programme (UNDP) carried out the project 'Accelerating CSR practices in the new EU member states and candidate countries as a vehicle for harmonization, competitiveness and social cohesion in the EU' for the European Commission. The project had three aims, namely, situation analysis, the promotion of multi-stakeholder initiatives for awareness raising and good-practice exchange, and national and local capacity building in selected new Member States and Candidate Countries (Bulgaria, Croatia, Hungary, Lithuania, Macedonia, Poland, the Slovak Republic and Turkey). The participating countries presented their CSR agendas in September 2008 in Vilnius. Supported by the European Commission, the UNDP continued supporting new Member States through another project in the region which began in the fourth quarter of 2009. It was launched in order to establish a measurement system for CSR on both government and company levels in Bulgaria, Hungary, Lithuania, Poland and the Slovak Republic. [The project ended in 2010.] Further information on both projects can be found on [www.acceleratingcsr.eu](http://www.acceleratingcsr.eu).

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### **1.3.2 CSR supporting policy frameworks in the EU Member States**

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There are several reasons for EU Member States to engage in CSR and to draft a policy framework to support it. CSR offers a voluntary complement to traditional hard regulation by persuading private businesses to tackle domestic and global issues and

thus indirectly to pursue public goals. This way CSR can help to close governance gaps and reduce the potentially negative impact of business operations on society and environment. Put differently, the public policy case for CSR can pay off for governments just as the business case can benefit companies. As a consequence, ever more EU Member States actively engage in CSR.

One way to establish a CSR supporting policy framework is to adopt CSR action plans and strategies. These are central and public documents that define a government's general approach to CSR, set priorities for actions and coordinate a set of existing and new policy instruments. Properly implemented, they can be a first step towards a public CSR policy, especially for countries that cannot build upon a long CSR tradition or strong CSR institutions. So far CSR action plans and strategies have been adopted by [Belgium in October 2006, Bulgaria in 2009, Denmark in 2008, Germany in 2010, Hungary, Lithuania in 2010, and in the Netherlands in 2007.]

The Finnish Ministry of Employment and Economy (MEE) drafted a comprehensive background paper covering basic issues of CSR after the Finnish National Contact Point (NCP), which is also known as 'Committee on CSR', had published a statement on CSR proposing a holistic view of CSR and the coordination of the CSR actions of government and other agents. The paper was sent to stakeholders for comments in 2010; a revised version will be presented in November 2010. Based on the background paper the MEE and the Finnish National Contact Point will prepare a governmental resolution on some key areas of CSR by the end of 2010.

[Despite this slight trend towards adopting CSR strategies and action plans], the majority of EU Member States do not have a strategic document in place. This does not necessarily mean that they have not adopted an advanced approach to CSR. Member States like UK, [France, Finland and Sweden] are known to have a strong CSR profile. In fact, CSR approaches, both those that are guided by a strategic document and those that have evolved in an ad hoc fashion, share common elements, because of the way CSR policy supporting frameworks are typically developed. Six steps can be identified according to 2010 study published by the UN Global Compact and the Bertelsmann Foundation:

- understanding the country-specific CSR context
- defining CSR
- defining a CSR public policy rationale
- situating CSR in government institutions
- selecting CSR policies, and
- monitoring their outcomes

Every government that aspires to elaborate a CSR policy supporting framework needs to answer the questions raised in these six steps. While the questions are always the same, the Member States' answers sometimes coincide and sometimes diverge. The remainder of this chapter present Member States' answers to the last four of the six

steps. The definition of CSR is not covered as all Member States agree more or less on the European Commission's conception. Although the CSR context of all 27 Member States cannot be described within the limits of this Compendium, its different topical chapters give readers a first impression.

### Box 1.1

#### Good Practice: Denmark's Action Plan for CSR

In May 2008 the Danish government published its 'Action Plan for Corporate Social Responsibility'. The aim of the action plan is twofold: to promote CSR among Danish businesses, and to promote sustainable growth both domestically and internationally. The action plan comprises 30 initiatives in four key areas: propagating business-driven social responsibility, promoting businesses' social responsibility through government activities, the corporate sector's climate responsibility, and marketing Denmark for responsible growth.

[With its action plan Denmark is one of the few forerunners in public policies on CSR to have issued a CSR strategy.] The virtues of a central strategic document are clear from the Danish case. It helps to focus and re-emphasise existing instruments and to formulate clear priorities. The Danish action plan is characterised by three strengths. First, it presents a smart mix of CSR instruments, ranging from informational web tools like the CSR Compass or partnering instruments like the Council on Corporate Social Responsibility to legal instruments such as the much-debated legislation on reporting (see chapter 3.4.1). Second, it sees CSR as a means for improving competitiveness and thus stresses the business case for CSR. Third, Denmark is a strong supporter of international CSR initiatives, as is evident particularly from its support for the UN Global Compact and the UN Principles for Responsible Investment (UNPRI) as laid down in the action plan.

### 1.3.2.1 CSR public policy rationale

The CSR public policy rationale is a government's justification for engaging in CSR. The rationale is informed by the country's specific socio-economic context and its policy challenges. Although some general rationales can be identified, such as inclusive and sustainable growth, social and environmental issues or matters related to the import and export of foreign direct investment in a world economy, each country has to determine its own rationale. As far as CSR action plans and strategies are concerned, the rationale is often revealed by the priorities set by a Member State.

The nature of a Member State's economy and its degree of integration in the world economy have a significant impact on the appropriate CSR public policy rationale. Rather small economies with a large number of SMEs pursue different goals from those pursued by highly export-oriented economies. Belgium, for instance, depends strongly on SMEs, which account for over 70 per cent of its Gross Domestic Product. In its 'Federal Action Plan for CSR' the Belgian government endorses, among others, the goal of financially assisting companies that are active in the social economy. The social

economy includes cooperatives, mutual societies, non-profit associations, foundations and social enterprises, which provide a wide range of products and services across Europe. Most of the social economy is made up of SMEs. Such support for the social economy can be found in other Member States whose economies likewise contain a high proportion of SMEs. Poland established a 'Group for Systemic Solutions within the scope of Social Economy' in December 2008 to work on a policy for developing a social economy. In March 2010 Portugal launched a 'Support Program for the Development of Social Economy', which includes a considerable national microcredit programme, to stimulate job creation and entrepreneurship among social groups that have difficulty in accessing the labour market. Substantial support for the social economy can also be found in UK, [France, and Ireland].

By contrast, Member States with a tradition of export-oriented business and a strongly regulated domestic economy tend to focus on CSR abroad. Denmark is a case in point. Its action plan (see box 1.1) has a strong focus on supporting international CSR initiatives like the Guidelines for Multinational Enterprises of the Organisation of Economic Co-operation and Development (OECD) and the UN Global Compact, for instance by increasing the number of Danish companies recognising or joining these initiatives. Sweden and Finland are also strong supporters of international initiatives and seek international dialogue to foster CSR in developing countries (see below). The Dutch government seeks to strengthen international CSR diplomacy, for instance by requiring that Dutch trade missions abroad follow the OECD Guidelines and be informed and advised about the CSR challenges in specific countries. In addition, Dutch politicians and diplomats raise CSR issues that are being debated in the countries they visit.

The CSR rationale that Germany espouses is different again. Its recently adopted national strategy sets six priorities areas including the promotion of CSR, especially among SMEs, and the strengthening of CSR on the international level and in development. Both priorities mirror Germany's export orientation and its Mittelstand of SMEs, which forms the country's industrial base. The German government plans to introduce the concept of "CSR – Made in Germany", which is meant to stress the product quality and responsibility of its exporting companies around the world.

State-owned companies may also be a defining element of the public rationale of CSR. For instance, in 2007 the Finnish government launched a resolution which determines the main principles of governing state-owned companies. Those companies have to serve societal aims [such as ...], while remaining profitable. The idea that state-owned companies can act as a role model for business can also be found in [Denmark, Sweden and France.]

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### **1.3.2.2 CSR in the government structure**

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One of the first questions to be answered by governments elaborating a CSR public policy framework is where to situate CSR within the government structure. Usually, several government departments are involved in CSR, with one of them leading public policies on CSR. Often these are the departments of labour and social affairs, of

economics or of foreign affairs. However, as CSR is a holistic concept it needs to be dealt with across the board. For this purpose governments can set up inter-ministerial working groups. Such a group was recently established in Cyprus (2008), [and Lithuania?].

An alternative approach is to set up a new organisation. The appointment of a CSR minister in the UK had been an example how to centralise the government's CSR activities until the position was abolished in 2008. In addition, councils, centres and agencies can be used to coordinate CSR policies. Thus, Poland set up the 'Group for Corporate Social Responsibility Issues', an auxiliary body of the Prime Minister's office, in May 2009. An Undersecretary of State presides over the group, which consists of representatives of a wide circle of experts representing the government as well as business partners, social organisations, trade unions and academia. The Group works on the promotion and implementation of CSR principles, the analysis and use of good-practice examples, and the conditions facilitating stakeholder dialogue. It also has four working groups concerned with a system for promoting CSR in Poland, responsible investment, education within the scope of CSR, and sustainable consumption.

Similar groups have recently been created in other Member States. The Danish Government Centre for CSR, founded in 2007, coordinates initiatives implementing the government's action plan for CSR. The Centre also develops and communicates knowledge and tools for businesses and other stakeholders. In Spain the 'State Council on Corporate Social Responsibility', established in February 2008, acts as a collegiate quadripartite advisory and consultancy body for government, with an equal number of representatives from business, the trade unions, civil society and government at central, regional and local levels. It is responsible for fostering and promoting the implementation of CSR policies, and proposing new measures. In January 2009 the German Federal Ministry of Labour and Social Affairs appointed about 40 representatives from the business community, civil society, trade unions, academia and policymakers to a "National CSR Forum". It has advised the Ministry in developing a national CSR strategy and will continue its work as a strong player fostering CSR in Germany.

Intensifying and institutionalizing the cooperation between the stakeholders is fundamental for the German way, having in mind that a national CSR strategy requires the knowledge, guidance and participation of key societal players.

Specialised councils can support CSR, too. The UK and Portugal have both set up councils for social economy. The UK Prime Minister's 'Council on Social Action' was set up in December 2007, while the Portuguese 'National Council for Social Economy' came into being in August 2010.

[Furthermore, governmental CSR organisations can be used to strengthen international cooperation on CSR. Sweden announced in March 2010 that it would create a 'Centre for Corporate Social Responsibility' at its embassy in Beijing. It is supposed to further develop the dialogue with China on corporate responsibility, for example on how companies safeguard working conditions, worker protection, environmental responsibility, consumer rights and efforts to combat corruption.]

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### 1.3.2.3 Choice of policy intervention

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A successful CSR supporting policy framework makes use of a variety of instruments, as this Compendium and its predecessors show. The choice of a particular policy instrument depends on the topic and the Member State in which it is to be implemented. However, from a reading of all chapters of this Compendium the following general trends could be identified. [Trends to be included here once sufficient HLG input for all chapters is available.]

#### Box 1.2

##### [Good Practice: Spain's Sustainable Economy Law]

[It depends on the remaining input as well as on the Spanish Parliament's vote on the law whether it can be presented as good practice.]

[In March 2010 the Spanish cabinet approved the Sustainable Economy Law, which to come into force needs to be adopted by Parliament. It contains various measures related to CSR, some of them closely linked to transparency, like the disclosure of the remuneration of company directors, and others closely linked to sustainability in the management of state-owned companies. It also includes a provision on the promotion of CSR. Article 37 creates incentives for companies, in particular SMEs, to incorporate or develop corporate social responsibility policies. It stipulates that the government shall provide them with a set of [characteristics] and [performance] indicators for their self-assessment with regard to social responsibility, as well as reporting models or references that comply with international standards on the matter.

This set of [characteristics], indicators and reference models must have particular regard for transparency objectives in management, good corporate governance, commitment to the local community and the environment, respect for human rights, improvement of labour relations, promotion of the integration of women, real equality between men and women and equal opportunities for people with disabilities. This will be done in accordance with the recommendations made to this end by the State Council on Corporate Social Responsibility. Companies that achieve the minimum threshold in the above indicators may voluntarily request to be recognised as socially responsible companies in accordance with conditions determined by the Council itself.

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### 1.3.2.4 Monitoring and review

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Like other policies, those on CSR benefit from monitoring and review. Action plans and strategies may be helpful here, since they set targets against which actual progress can be measured. The Danish action plan, for instance, aims at increasing the number of Danish companies that sign the UN Global Compact and the UNPRI. In 2010 it prepared for the first time a biennial progress report on Danish businesses' compliance with and commitment to these initiatives. An evaluation of the government's achievements in implementing the action plan has been announced for

2012. The Bulgarian strategy uses reporting to monitor progress on its three action plans. For each action plan the Ministry of Labour and Social Policy is required to draft a report about the work carried out by all stakeholders involved. The reports are first submitted to an advisory board for approval, and the approved reports are in turn sent to the Council of Ministers for approval. In addition, a preliminary assessment of the strategy's implementation must be undertaken at the end of 2010 and a final one in May 2013. Likewise, the German CSR strategy foresees a progress report in each legislative period. The report is meant to provide evidence of the implementation of CSR in government and business, for instance by reviewing the number of companies and government organisations adhering to international standards.

Review measures may also be used to improve the management of international instruments. In December 2009 the Dutch NCP of the OECD Guidelines submitted itself to a voluntary peer review by NCP colleagues from Canada, Chile, France, Japan and the UK. The review team's report was published in March 2010.

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## 2 Socially responsible supply chain management with particular emphasis on human rights

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### 2.1 Definition

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Supply Chain Management (SCM) is integral to business and competitive advantage, especially in the production sector. According to the classic definition<sup>1</sup>, 'The supply chain encompasses all activities associated with the flow and transformation of goods from raw materials stage (extraction), through to the end user, as well as the associated information flows.' Managing a supply chain comprises a series of companies that work together as suppliers, logistics providers and customers to deliver a product or service. It therefore entails business-to-business and business-to-customer relationships and processes.

There is no single definition of *Responsible* Supply Chain Management (RSCM), despite increasing political and scholarly attention to the topic (see chapter 2.2). The benchmark for responsible SCM is often derived from the sustainable development concept. In line with the latter and the European Commission Green Paper on Corporate Social Responsibility, RSCM is defined here as an approach to SCM that takes into account social, environmental and economic considerations. Human Rights (HR) responsibilities are at the centre of this triad and provide the special focus of this Compendium.

John Ruggie, UN Special Representative on Business and Human Rights, highlights the state duty to protect, the corporate responsibility to respect and access of victims to remedy as core pillars of his framework. In this regard RSCM offers a mechanism to anchor corporate responsibility in a specific business process and at the same time extend it beyond company gates along the supply chain.

### 2.2 Development of RSCM in Europe

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As a mechanism to implement and spread Corporate Social Responsibility (CSR) beyond national borders, RSCM is beginning to receive increasing attention. Prominent campaigns by non-governmental groups have targeted large well-known multinational brands and enterprises to raise awareness of sweatshop conditions and focus responsibility on buyers. The high suicide rate of workers at Foxxcon shed a bad light on Apple and its product iPhone and transferred the question of RSCM to the electronics industry. The food industry (e.g. regarding chocolate from civil war savaged Cote d'Ivoire) and others have been equally targeted by campaigns. Public and

<sup>1</sup> Handfield R. B. and E. L. Nichols 1999: Introduction to supply chain management. New Jersey: Prentice-Hall.

consumer awareness of these issues is increasing and putting pressure not only on corporations but also home governments to include their supply chain in their approach to responsibility. More recently such thinking is also being extended from the supply to waste and recycling chains. The topic of e-waste, for example, raises questions on the responsibility of consumers and producers for the entire life cycle of a product. This includes issues of sustainable consumption (e.g. considering the lifespan of a product besides its energy efficiency during use) which reach beyond the scope of this Compendium chapter.

In the European Union (EU) and particularly at the European level (see below), the holistic concept of CSR includes the responsibility of corporations across their (international) supply chain. Important EU policy documents, such as the European Commission's Communication on CSR (2006), as well as all Member States, reflect in their CSR approaches, policies and statements that the scope of responsibility is broadened through the supply chain. In these documents, RSCM is mentioned as a mechanism for delivering CSR, including in regions and countries that lie outside the legislative boundaries of Member States and the European Union. As an implementation instrument for CSR, RSCM is rarely the focus of policy frameworks or specific initiatives. CSR initiatives focus instead on topics such as HR (especially since John Ruggie's appointment and reports), corruption or child labour and refer to RSCM as a mode of delivery and an extension of the corporate duty to respect.

A second explanation for the reduced number of government-only initiatives focusing explicitly on RSCM is the fact that (R)SCM is essentially core business practice and one important area for businesses to create competitive advantage. Stringent economic or legal government instruments could essentially undermine competitive market dynamics. Furthermore, it is not surprising that government initiatives frequently take the form of public-private partnerships (PPP), in which they cooperate with other governments and multi- or supranational organisations (EU, United Nations), corporations, non-governmental organisations (NGOs) or scientists. Prominent examples of large PPPs include the Extractives Industries Transparency Initiative, the Global Reporting Initiative, the Multi-Fibre Arrangement Forum and the Carbon Disclosure Project. While these initiatives bear relevance to RSCM, they are not focused on here because a) they are multistakeholder arrangements with multiple drivers, rather than government initiatives, and/or b) they are not centrally focused on HR. Only such partnership initiatives with a clear governmental role and drive and a focus on HR are presented in the 'partnering instruments' section (see chapter 2.4.4) of this Compendium chapter. Similarly, a variety of business initiatives and corporate-NGO networks or projects exploring RSCM good practices and joint initiatives in many Member States are excluded from this Compendium, which focuses on government initiatives.

The increasing momentum of and political backing for fair and ethical trade markets, producers and consumers is one important trend in this development. One example is the Ethical Trade Initiative (ETI), which has been funded by the British Government since 1998 and has national offices or equivalents in many European countries, including Ireland and Denmark. Fair trade approaches have fully integrated consumer and producer responsibility in a separate supply chain and market. The approach's

topics may relate to public procurement (e.g. European Observatory on Fair Trade Public Procurement) or RSCM, if a corporation decides to source some resources from fair trade producers or traders. In the realm of public policy, fair trade policies (other than public procurement guidelines) are generally linked to broader trade policy, such as access to market, standards and subsidies. They therefore relate to macro processes and differ from RSCM in the sense defined above. Fair trade initiatives are therefore only included in this Compendium if a) they provide information and services that specifically support RSCM and b) they are new initiatives since 2007.<sup>2</sup>

The trends described above highlight the increasing relevance of RSCM, particularly as an approach that offers a practical application to general appreciation and acceptance of CSR. In this key area Member State governments are playing a role, particularly in promoting and supporting small and medium enterprises (SMEs) in developing and implementing systematic RSCM approaches (see chapter 5). The following EU, international and Member State initiatives outline the political frameworks and initiatives that have been put in place since the last Compendium (2007) to address RSCM.

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## **2.3 International public policies to support RSCM**

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### **2.3.1 Public policies of the European Commission**

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‘Companies should pursue social responsibility internationally as well as in Europe, including through their whole supply chain.’ This statement in the European Commission’s Green Paper on Promoting a European Framework on CSR (2001) indicates the EC’s early leadership regarding CSR and RSCM. The Commission’s Communication on CSR from 2006 reasserts that mainstreaming CSR efforts also must involve ‘[a]ssisting enterprises to integrate social and environmental considerations in their business operations, especially those in the supply chain.’ These statements both clearly state the responsibilities corporations carry for their supply chains.

At the EU level the topic of business and human rights, and particularly the UN framework, have become a central theme in its CSR leadership. Promoting the issue of RSCM and Human Rights, the EC’s Directorate-General (DG) Enterprise and Industry has introduced a website dealing specifically with Business and Human Rights. It aims to raise ‘business awareness of its responsibility to respect human rights and exercise due diligence.’ It points to this corporate responsibility ‘wherever they are operating’, implying a scope that includes the supply chain. The DG also commissioned a study from the University of Edinburgh Law School on the ‘existing legal framework for human rights and environmental issues applicable to European companies operating

<sup>2</sup> Most fair trade approaches are initiatives that began prior to 2007, the starting point of this Compendium.

outside the EU.’ According to the interim report, the final report<sup>3</sup> will analyse how labour laws can ‘address corporate violations of human rights both within and outside the corporation (i.e. supply chain and subcontracting relationships).’ The United Nations (UN) framework was also discussed by the European Council of Ministers Working Party on Human Rights in May 2009 and received further political backing by the Swedish EU Presidency, which organised a major European conference on business and human rights in the second half of 2009. Furthermore, the Commission’s High-Level Group on CSR commissioned a study on RSCM (a parallel work package to this Compendium) which will be finalised in 2010.

Other European Commission RSCM informational initiatives since the last Compendium have focussed on children’s rights by combating child labour. They include support for business cooperation in Europe and Asia between socially responsible SMEs operating in the whole (child) garment supply chain, a Commission Staff Working Document on combating child labour (January 2010) that refers to the work of the High-Level Group on CSR, and support to the Government of Pakistan and civil society organisations to implement the National Policy and Plan of Action to Combat Child Labour. Recognising poverty as a key driver of child labour, the Commission approaches the issue from various angles, including questions on development and trade as well as corporate CSR and RSCM (see Commission Staff Working Document 2010). Taking a broad approach, the Commission’s activities to promote CSR (2007-8) in Pakistan further include efforts to ensure a safe, abuse- and sexual-harassment free work environment for all women and men so that they can claim their right to work with dignity, as well as activities to strengthen civil society organisations in their role of promoting basic human and labour rights.

In regard to informational instruments the European Commission additionally addressed RSCM in regard to the food supply chain in Europe through a variety of actions, including draft standard contracts and a food price monitoring tool (MEMO 10/2009). The initiative particularly aims at supporting smaller actors who may be treated unfairly but does not specifically emphasise human rights. The initiative, as many other RSCM approaches, also aims at fostering consumer rights, which while being important are not the focus of this Compendium RSCM overview.

In 2009 the EC also hosted a plenary meeting of the Multi-stakeholder Forum on CSR that brought together business, Member States, NGO and Commission representatives. Through this partnering instrument, the EC aimed to review global CSR progress and develop future joint initiatives particularly with regard to the UN framework. One panel focused on the leverage of supply chains to support human rights and decent working standards.

Finally, the European Commission also engages in hybrid instruments. A relevant example is the Portal for Responsible Supply Chain Management, which is part of the European Alliance for CSR. Founded by the European Commission and leading companies in Europe in 2006, the Alliance meanwhile includes 260 companies and

<sup>3</sup> At the time of writing the final report is not yet published.

business supporters. Its RSCM platform provides among others information concerning RSCM, best practices, codes of conduct and international frameworks. By highlighting 'child labour, forced or bonded labour' as a key issue the portal also integrates human rights. Other key issues are: corruption/bribery, discrimination, freedom of association, collective bargaining agreements, health and safety, compensation and working hours.

Similarly, the European Commission co-funded and partnered with businesses in providing information through the Global CSR website. The site offers nine business cases as practical application examples. One case is concerned with 'inclusive supply chains', focusing on pro-poor economic growth and diversification, and another with ethical trading, though HR are not at the focus of attention.

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### **2.3.2 Other multi-lateral and joint initiatives involving European Member States**

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The survey of Member State representatives regarding their countries' initiatives for RSCM and human rights highlighted the importance of the Organisation for Economic Co-operation and Development (OECD) and its Guidelines for Multinational Corporations. Most Member States emphasised their activities in the framework of the OECD and the work of the OECD National Contact Points (NCPs) as important policy contributions. Nevertheless, there are substantial differences as to the role of NCPs among Member States, regarding the host ministry, as well as the amount and seniority of staff allocated to this task. To ensure compliance with the OECD Guidelines the Czech Republic NCP is hosted by the Ministry of Industry and Trade since 2009. In the United Kingdom (UK) the NCP is run by the Department for Business, Innovation and Skills and monitored by an independent Steering Board, which was set up in 2007. The Italian NCP is seeking to highlight HR and the UN framework in the current revision of the OECD Guidelines. It has commissioned CSR awareness campaigns in 2009 and funded research in 2010 to assess the impact of adopting CSR measures, including for value chain networks.

The development of the international CSR norm ISO 26000 is another important and timely international effort that also addresses RSCM issues and includes a large section on HR. A total of 84 developing and developed countries are participating in its development, including many EU Member States. In the current working draft of the norm (scheduled to be finalised in 2010), chapter 6.3 elaborates on HR. The supply chain is recognised as a mode of delivering global responsibility and primarily mentioned in relation to a variety of existing initiatives. Once ISO 26000 comes into fruition consultants are likely to use it as base document for their services and tools, ideally multiplying the integration of HR considerations in RSCM.

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## 2.4 Public policies in the EU Member States

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### 2.4.1 Legal instruments

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The Universal Declaration of Human Rights forms the normative basis for international human rights which is further reflected in international law through specific covenants, treaties and other binding legal instruments, as well as in numerous national constitutions. Furthermore, the US Alien Tort Claims Act opens the option of suing a corporation or natural person for violating the law of nations or a treaty of the US, irrespective of the nationality of the accused or place in which the crime was committed. These laws do not generally, however, hold responsible those who buy or sell from others abusing human and workers rights or the environment.

At the same time corporations face 'soft law' norms and standards that make them responsible for the conduct of their suppliers. Advocacy campaigns have targeted brands and multinational enterprises with consumer boycotts to highlight poor working conditions and human right abuses further down the supply chain. The initiatives and examples given here under the informational, partnering, financial, economic and hybrid headings are evidence that corporations cannot easily ignore the issue of RSCM simply because they are not formally liable for the conduct of their suppliers.

The Belgian Parliament, for example, provided the legal basis for a Voluntary Social Label by approving a law that offers companies the possibility of using such a label, which is granted to products with production chains that respect the eight fundamental International Labour Organisation (ILO) conventions. The right to use the label is given by the Ministry of Economic Affairs based on the positive and binding opinion of a stakeholder committee for a maximum of three years, with constant monitoring.

The Dutch cabinet vision of supply chain management (2008) foresees an 'International Corporate Social Responsibility Initiative 2010-2012' which will comprise a statement, working plan and progress report (see box 2.1). The plan targets large firms to report on their SCM under accounting directives. A committee will monitor the chain through existing policy instruments such as the Transparency Benchmark. SMEs are encouraged to contribute to RSCM. Individual cases of alleged violations of the normative framework are put on the committee's agenda.

#### Box 2.1

##### **Good Practice: The Netherland's International Corporate Social Responsibility Initiative**

The Dutch 'International Corporate Social Responsibility Initiative 2010-2012' aims to integrate SCM reporting of large firms under accounting directives and use soft law approaches (such as the Transparency Benchmark) for monitoring purposes. The scheme also encourages SMEs not covered by the instrument to contribute to RSCM. A committee will deal with alleged violations of the normative framework.

## 2.4.2 Economic and financial instruments

Some European Member states also support RSCM approaches by economic means, particularly by providing funding for PPPs, conferences (see chapter 2.2) or through CSR foundations. Italy's CSR Foundation, for example, has been active since 2004 in supporting multi-stakeholder initiatives aimed at sustainable trading practices, including monitoring and evaluations. At the province level Italian Chambers of Commerce have also provided financial support 'for suppliers in developing countries getting certification schemes, such as SA8000 and Forest Stewardship Council (FSC) as part of development aid.' They have policies in place to promote supply chain transparency (such as transparency benchmarks) as well as better information for consumers about the origin and social and environmental conditions in supply chains of consumer products. Between 2001 and 2008 such funding has also covered contributions to accessing remedies for victims and forums for dialogue with stakeholders.

Another approach is to give tax breaks or subsidies to reward certification. The Polish government subsidises the Eco-Management and Audit Scheme or International Organization for Standardization certification of Polish companies, some of which supply other Polish and European companies. The German government offers financial or in-kind support for suppliers in developing countries seeking certification, such as SA8000 and FSC, as part of development aid.

The UK Government has also continued funding initiated prior to the timeframe of interest to this Compendium. Besides funding the Ethical Trading Initiative since its inception in 1998 (funding in 2010-11 is organised through a Partnership Programme Agreement, see also chapter 2.2), UK Department for International Development (DfID) also funded the Responsible and Accountable Garment Sector (RAGS) Challenge Fund, one of the 'Sustainable Clothing Roadmap' industry initiatives of the Department for Environment, Food and Rural Affairs. The fund aims at improving working conditions for 'workers in low-income countries in Asia and Sub-Saharan Africa that supply the UK market.' In order to help responsible garment manufacturing 'become the norm,' the grant supplies a total of £3 million to support projects over a three-year period (2010-2013).

### Box 2.2

#### Good Practice: The UK's funding for the ETI

Government funding can help start up and develop important RSCM initiatives. The UK has shown good practice regarding ETI (see chapter 2.2) by providing the long-term funding commitment often necessary to ensure lasting success. With the Responsible and Accountable Garment Sector (RAGS, see above) Challenge Fund the UK has again given substantial support (£3 million to support projects over a three-year period: 2010-2013) in order to effect systematic change in a sector notorious for a lack of RSCM.

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### 2.4.3 Informational instruments

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Providing information, best practice examples, exemplary codes and contracts are a typical way for European governments to foster RSCM related to human rights.

- Responsible government bodies differ: foreign (e.g. Finland) or development (e.g. Germany) ministries, housing and environment ministries (e.g. Netherlands), and others.
- Governments state the responsibility corporations carry for protecting human rights and refer to their supply chain leverage. For example, the Finnish Ministry of Foreign Affairs states that basic human rights and core labour standards are an essential part of CSR, also in developing countries. Such statements are made by most Member States government ministries or in policy papers. They give clear normative guidance and support discussion in favour of corporate responsibility throughout the supply chain.

Besides these endorsements by government, specific information on RSCM and HR is provided in a variety of ways, including toolkits, best practice information, centres and contact points, guidelines, prizes and awards. For example, the Danish Minister of Economic and Business Affairs asked the Danish Council on Corporate Social Responsibility in 2010 to develop guidelines on responsible supply chain management building on John Ruggie's work and recommendations regarding due diligence processes. The initiative was a response to a documentary revealing use of child slavery in the industry of chocolate production on the Cote d'Ivoire. The resulting guidelines also promote transparency, dialogue and partnerships.

A similar approach was taken by the Dutch Ministry of Housing, Spatial Planning and the Environment which, under the umbrella of its social public procurement approach (see chapter 8) compiled and published a list of criteria for RSCM that can also be applied to the private sector. The criteria relate to HR by stating that suppliers must 'fulfil at least ILO standards.' The instrument also offers a verification tool.

Another informational instrument approach is to commission research and evaluation. The French Ministère des Affaires Étrangères commissioned a study on France's view on the Ruggie approach and potential legislative gaps on the national, European and international levels. This was carried out by the National Consultative Agency on Human Rights in 2008. Business and human rights was also the subject of a conference convened by the French Commission nationale consultative des droits de l'Homme focusing on discussing risks, the situation of SMEs, case studies, regulations, the role of worker's unions and recommendations. Poland commissioned the research project 'Management of sustainable supply chain' by the Department of Logistics of the Warsaw School of Economics (2007-2008). Germany (Ministry for Development and Economic Cooperation) for example published an evaluation report on 'Introducing voluntary social and ecological standards in developing countries' (2008) and held an international conference on 'Shaping Globalisation - Scaling Up Voluntary Standards' the same year with the aim of harnessing recommendations for German Development Policy authorities concerning the effective implementation of social standards; case studies on various project supported by the German government or its bodies include,

for example, those on Brazil, China, Kenya and Zambia. The Finnish Ministry of Foreign Affairs commissioned a study on business and human rights in 2009.

An example of an informational instrument established prior to 2007 but providing new tools relevant to RSCM is the Danish 'Human Rights and Business Project'. Supported by Danish International Development Agency (Danida), the Council of Europe, the European Commission, the UN and the World Bank, this institutionalised project of the Danish Institute for Human Rights has developed a variety of new tools since 2007, including:

- HRCA 2.0: the updated and reformatted Human Rights Compliance Assessment tool and database (2010). New features include automatic tailoring to sector and company operations, country risk matching and an intranet plug in.
- First test briefings from the Country Risk Portal (2010), a free website aiming to help companies 'identify, assess and address human rights risks in the countries where they do business or manage supply chains.'
- A Global Compact Self Assessment Tool (2010).

The Polish government in partnership with NSZZ 'Solidarność' also organised expert seminars on human trafficking and forced labour, thus using the informational instrument to convey legal aspects of RSCM.

The informational initiative 'Ethical Fashion' on the other hand promotes the idea of a sustainable supply chain from the demand side and consumer perspective, and is supported by the Polish government, organised by Polish Humanitarian Action and co-funded by the EU. It includes training sessions for consumers, as well as teachers and lecturers from academia. To raise awareness, the Polish government also cooperated in convening a conference on 'How does fair trade contribute to the Polish Economy' in March 2010. A recent Fair Fashion Conference (2009) supported by the Austrian government (as part of the Clean Clothes Initiative) also raised awareness on labour standards in the supply chain, specifically in the garment sector, by addressing public fashion schools all over Austria. Students worked on RSCM issues in workshops and seminars, organised partly together with activists from developing countries, and presented their projects during the conference.

[Voluntary codes of conduct are another source of information on RSCM. For instance, in Portugal the 'Labour Platform' launched a code of conduct regarding 'Companies and HIV' in 2008. The Platform brings together representatives from employer and employee organisations and its code of conduct targets companies both in Portugal and the Portuguese-speaking countries. The implementation of the code currently involves around 100 companies.

Awareness and information on RSCM can also be spread through prizes and awards. The National Prize of Quality of the Czech Republic for CSR, for example, includes the criterion of proving responsible selection and evaluation of suppliers and their transparency. Another criterion for selection is human rights abidance (which entail rules against discrimination, correct relations with other stakeholders, and the certificate OHSAS 18001) at the level of the organisation and their suppliers. These award criteria clearly communicate RSCM and HR to any company interested in

competing. The Slovak Pontis Foundation also awards the Via Bona Award 'for projects promoting business transparency and eliminating corruption beyond legislative and regulatory requirements.' Representatives of Slovak government agencies (Ministry of Labour, Social Affairs and Family and the Environment Agency) act on the jury for the award, supporting this initiative with political backing and visibility. While HR is not the primary focus, the award includes the supply chain.

Finally, governments sometimes use agencies to support suppliers directly in gaining certification on social standards that may include HR. The British Standards Institution's Management Systems provide organisations with confidence about the ethics of their extended international supply chains with third party certification to SA8000, second party compliance services to company or trade body standards and an integrated solution for managing supply chain compliance. The Dutch Centre for the Promotion of Imports from Developing Countries and Ministry of Foreign Affairs offer supplier training concerning EU standards, fair trade, marketing as well as CSR requirements. Suppliers are offered information on health and safety, environmental and social requirements necessary to generate business on the EU market (see also German government financial instrument).

#### Box 2.3

##### **Good Practice: Poland's awareness campaign**

The informational initiatives of the Polish government show how to build a range of capacities regarding RSCM by focusing on expert seminars on human trafficking and forced labour on the one hand and on the other hand promoting responsible consumer behaviour by supporting the Ethical Fashion initiative. [...]

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#### **2.4.4 Partnering instruments**

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Since (R)SCM is integral to business practice, many European Member State governments partner with businesses and sometimes also NGOs in public-private or tripartite initiatives to support RSCM (see chapter 2.2). Public-private partnerships, networks or joint initiatives on CSR that are more or less related to RSCM exist in all countries for which the consultants could identify RSCM initiatives since 2007 and/or which gave feedback through the High Level Group (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, UK). Many partnerships' main aim is to inform; they are therefore presented above as informational instruments. Some of these initiatives take the form of hybrids (see below), in that they equally combine the partnering and informational and/or other types of instruments.

An initiative that focuses primarily on partnering is the Irish Fairtrade Network (Fairtrade Mark Ireland) supported by the Ministry of Foreign Affairs and Irish Aid. While the network exists since 2002, a new grant of €15 million was issued in 2008 to

extend the programme from Central America to Tanzania, Kenya, Ethiopia and Uganda. Another €85,000 was provided through the Irish Aid Development Education Funding Scheme in 2009. The aim of the education programme is to promote greater understanding of the role consumers and businesses can play in ensuring greater justice in trade. The public campaign culminated in 'Fairtrade Fortnight' in 2009, which included many activities and was supported by the Minister of State. The main focus of the Fairtrade Network lies on poverty and hunger alleviation rather than HR. Similarly, DfID has committed to provide £12 million towards Fairtrade's coordinated global expansion, through support to the Fairtrade Labelling Organisation. This will help achieve their ambition to bring the benefits of Fairtrade to twice as many producers by the end of 2013 (see chapters 2.2. and 2.4.2. for fair trade trends and financing instruments).

Another partnering initiative is the Dutch Sustainable Trade Initiative. It is a multi-stakeholder initiative (including government, NGOs, businesses and labour unions) that brings together representatives from the global North and South 'to improve the sustainability of international supply chains, by tackling social, ecological and economical bottlenecks for the first chain actors in developing countries.' It comprises a variety of sectors (tropical timber and other forest products, soy, nature stone, cocoa, tea, tourism, aquaculture and cotton) and primarily builds the capacities of farmers. The initiative therefore supports their (self-) organisation and training, the introduction of sustainability standards and the marketing of sustainable consumer labels. According to the initiative's new 'Action Plan Sustainable Trade 2011-2015', 'sustainability is the responsibility of companies.' At the same time the chairman of the Initiative emphasises that 'cooperation with NGOs and governments is essential to upscale sustainability.' The sectoral development programmes of the new Action Plan target labour, land use and water access rights, though human rights are not mentioned.

Also focusing on ethical trade and RSCM, Danida under the Danish Ministry of Foreign Affairs partly financed a multi-stakeholder initiative in 2008 that brings together the Danish Commerce and Companies Agency with trade unions, business associations, NGOs and companies to 'promote ethical trade and responsible supply chain management among Danish companies.' It aims at promoting good practices particularly related to the UN Global Compact, providing guidelines, identifying challenges and organising workshops, seminars and dialogues.

Another bilateral partnership strengthens the ability of Danish companies and their Indian suppliers to create synergies between social and environmental improvements and core business. Conceptualised and managed by the Danish Federation of Small and Medium-Sized Enterprises in collaboration with the Danish Commerce and Companies Agency, SUSBIZ India carried out a needs assessment, developed and implemented an action plan, and conducts training in India (workshops) and network activities in Denmark (meetings).

Approaching RSCM from a supplier country perspective, the Bulgarian government (through the Ministry of Labour and Social Policy and the General Labour Inspectorate), the relevant branch federations of the two nationally recognised trade union organisations, and the NGO Balkan Institute for Labour and Social Policy formed a

multi-stakeholder partnership with a variety of business representatives (e.g. Nike Inc, Adidas-Salomon AG, Levi Strauss & Co, H&M Hennes and Mauritz AB brands and seven suppliers for these brands, including 10 Bulgarian factories with approximately 3,000 workers). The aim of the initiative is to make the Bulgarian apparel industry 'a leader in corporate social responsibility' and thereby also increase its competitive advantage. The European Commission provides some funding; activities include management and employee training as well as impact assessments.

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### 2.4.5 Hybrid instruments

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Most initiatives that European Member State governments engage in take the form of hybrid instruments, which combine at least two of the above types as central elements (see chapter 1). The most common approach is to combine informational and partnering instruments by organising and supporting multi-stakeholder fora (for instance Belgium, France, Ireland, UK).<sup>4</sup>

Examples include the Belgian Cadre de Référence Responsabilité Sociétale de l'Entreprise, which offers recommendations for national government and Belgian businesses. It was created by Sustenuto and CAP Conseil with financial support by Le Service Publique fédérale de Programmation Intégration Sociale and Cellule Economie Sociale. The multi-stakeholder discussion on CSR produced a checklist for supplier relations (similar to the OECD guidelines) and developed a toolkit for businesses. The framework states that RSCM initiatives should not only be voluntary, promotes supplier auditing according to SA8000, and recommends that public policy and public procurement should also provide transparent information regarding supply chains.

The Austrian 'B-Fair' initiative also combines partnering and informational elements. This global fairness campaign was launched as part of Agenda 21 by the national and local government and the diocese Linz in 2006 and subsequently spread. It aims to raise awareness concerning critical situations in producing countries and the influence of consumer choice. It additionally seeks to foster encounters and contact between people living in developed and developing countries. The activities include fair breakfasts, consultation for the hospitality sector, information campaigns for students, cooking classes, campaign days and dialogues between food producers and consumers, amongst others. The activities are driven and organised by Austrian residents and communities engaged in Agenda 21. Individual activities may focus on HR.

Other hybrids include awards that provide some economic incentives but equally function as informational instruments. The Belgian Development Agency organised a contest through its Trade for Development Centre with one award focusing on the 'Best initiative for the promotion and sales of fair trade products and services within the

<sup>4</sup> Those partnerships primarily providing information have already been presented in the informational instruments section, and those emphasising a continuous partnership are found under partnering instruments.

domestic market and/or in markets of other developing countries' (BE FAIR Award South-South). The prize money of €5,000 may present an economic incentive for some SMEs, though the promotion of general fair trade goals is an equally important aim. The second award focused on women; HR do not receive special attention.

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## 2.5 Conclusions and upcoming initiatives

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### 2.5.1 General conclusions

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This Compendium reflects the broad variety of initiatives taken by Member States in the EU regarding RSCM. To some extent this reflects the fact that some Member States have economies primarily based on suppling and others on importing components to supply. The initiatives also imply the proximity of RSCM to other CSR topics discussed in the Compendium, particularly reporting, public procurement, SMEs and action plans. For example, some governments have compiled case studies, contact lists of 'good' supplier companies and similar tools for public procurement and then share these for general RSCM use.

Despite the variety of initiatives some conclusions are evident from the Compendium on RSCM: Government RSCM approaches mainly come in the form of informational instruments and partnering instruments – involving a significant informational aspect. Partnering in RSCM is highly evident despite the exclusion of PPPs from this Compendium. Legal and economic/financial instruments on the other hand appear to be underutilised in the realm of RSCM promotion.

The focus on informational instruments confirms that RSCM is still a new concept. Yet some visionary businesses have begun developing, piloting and implementing initiatives and tools. Fostering industry collaborations may help spread the reach of individual initiatives among businesses dealing with similar supply chains.

A final prominent conclusion is that cooperative (for instance multi-lateral and public-private) initiatives outweigh individual Member State approaches and dominate RSCM. The UN framework on HR already provides a common reference point for some initiatives and could function as a further coordination framework among EU Member States on RSCM and HR. This example and other collaborative initiatives (see chapter 2.2) show that coordination among Member States and with non-Member States, businesses and non-governmental groups is already underway, though further synergies would help achieve a larger impact. On the other hand some divergence remains: many Member States refer to the OECD concept of SCM in their frameworks rather than the EU concept, which holds implications regarding the corporate responsibility to respect along the supply chain.

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## 2.5.2 Upcoming initiatives

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[The Nordic Council, which consists of Denmark, Finland, Iceland, Norway and Sweden, plans to launch the 'Nordic CSR Compass tool' in December 2010. The informational instrument is supposed to foster RSCM by giving SMEs guidance on creating codes of conduct. It is based among others on the principles of the UN Global Compact and information on human rights provided by the Danish human rights institution. MNEs will be able to use the compass and the information it provides about the code of conducts of SMEs for their purchasing decisions. Therefore, it is assumed that SMEs which present their codes of conduct transparently in the Nordic compasses will attain a competitive advantage over non-participating companies.]

[...]

2<sup>nd</sup> DRAFT

## 3 CSR reporting and disclosure

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### 3.1 Definition

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This chapter deals with the disclosure of environmental, social and governance (ESG) information. Such information includes sustainability or Corporate Social Responsibility (CSR) reporting, but also any other requirement for disclosure of non-financial information, such as the obligation of organisations to disclose environmental information or certain other key performance indicators that are non-financial. The chapter limits itself to CSR or ESG disclosure via reporting, either through annual reports or specific ESG reports, such as sustainability reports or CSR reports,<sup>5</sup> and does not include product labels or other forms of ESG communication. In the course of the chapter, specific ESG reports are referred to either as CSR or as sustainability reports. All disclosure of pension funds and other institutional investors is excluded from the chapter; they are dealt with under sustainable and responsible investment (SRI).

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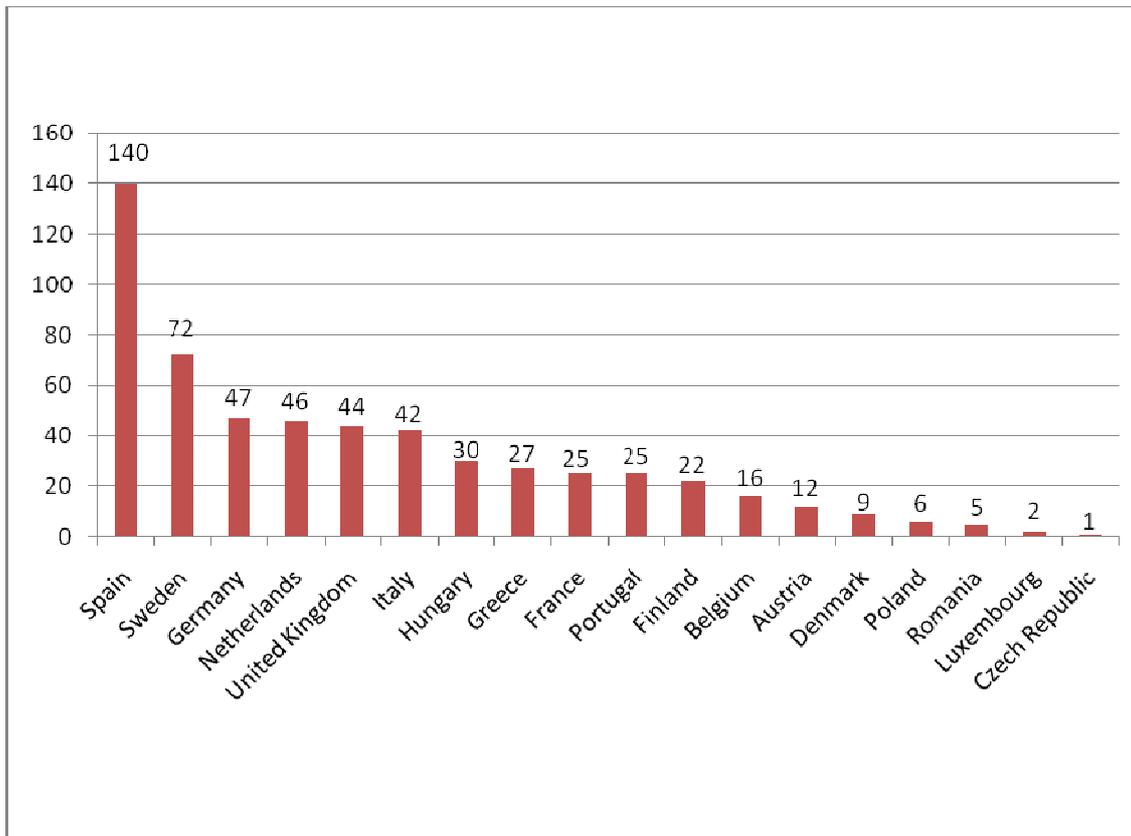
### 3.2 ESG reporting in Europe

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The number of companies disclosing information on their environmental, social and governance performance has grown significantly in recent years. On a worldwide level, according to the most recent statistics the annual global reporting output increased from almost zero in 1992 to an expected total of 4,000 reports in 2010; and despite the financial crisis and the subsequent recession, the growth rate of ESG reporting slowed only marginally during 2009. Although these numbers document a significant increase, it has to be kept in mind that reporting companies still constitute only a small share of global business, with its roughly 82,000 multinational enterprises and many more small and medium enterprises (SMEs). The most widely used reporting framework is the guidelines of the Global Reporting Initiative (GRI), with a total of 580 reports in the European Union (EU) in 2009. The country that reports most is Spain, with 24 per cent, followed by Sweden with 12 per cent and Germany, the Netherlands and the United Kingdom (UK) with 8 per cent each (see figure 1).

<sup>5</sup> Corporate Register has distinguished several sub-types of ESG reporting, such as 'Environment in general', 'Environment & Health & Safety', 'Environment & Social', 'Environment & Health & Safety & Community', 'Corporate Social Responsibility', 'Sustainability', 'Integrated', 'Social and Community', and 'Other'. In the current text they are all subsumed under ESG reporting.

Figure 1: number of GRI reports in Europe in 2009



Source: GRI website

Since 2005, based on the European Modernisation Directive (see chapter 3.3 for further details) companies are required to analyse non-financial key performance indicators relevant for the particular business, including information relating to environmental and employee matters. All countries have implemented European requirements; a number of Member States have gone further and have developed additional mandatory standards for ESG disclosure. In Denmark, the 1,100 biggest companies, as well as state-owned companies, have to publish a mandatory CSR report, and in Spain and Sweden it is obligatory for all state-owned companies to publish a sustainability report. Other countries have developed voluntary standards or guidelines to support companies or other organisations. They provide guidance on the integration of social and environmental issues in financial reporting or support rankings or awards related to sustainability reporting.

Generally there is a trend towards more government-driven initiatives related to reporting. This trend has also been observed by a recent study published by KPMG, GRI, United Nations Environment Programme and the University of Stellenbosch Business School, which found that standards, codes and guidelines as well as legislation for reporting have increased and that an ever-increasing number of reporting companies and organisations go hand in hand with more regulation, as well as with more guidance for ESG reporting published either by international organisations such as GRI or by individual Member States. Since the last Compendium,

most Member States have implemented new regulations for ESG disclosure or provided companies with guidance or incentives to start reporting.

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### 3.3 Public policies of the European Commission

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For reporting on non-financial information, the EU has three mandatory instruments with implications for all Member States: the Modernisation Directive, the European Pollutant Release and Transfer Register (PRTR), and the Integrated Pollution Prevention and Control Directive. Besides these mandatory instruments, the EU Eco-Management and Audit Scheme (EMAS) is a voluntary standard with implications for reporting on environmental issues.

The EU Accounts Modernisation Directive 2003/51 amended the Accounting Directives and stipulates that from reporting year 2005 onward European companies must provide a Business Review including non-financial environmental and social performance indicators relevant for the particular company. Member States may choose to exempt small and medium-sized companies from those non-financial reporting obligations in their annual reports. The aim of the Modernisation Directive is to harmonise authoritative guidelines in relation to environmental issues and financial reporting in order to facilitate comparability between entities possible and to embed environmental information more deeply in financial reporting. Another amendment of the Accounting Directives (Directive 2006/46) introduced an obligation for listed companies to include a corporate governance statement in their annual reports. By November 2009, all Member States had transposed the Modernisation Directive and most of them had transposed Directive 2006/46 (literally) in their national laws. The Modernisation Directive itself does not stipulate any requirements in relation to the type of indicators to be included in annual reports. However, individual EU governments have taken initiatives to provide companies with further guidance in this respect. These initiatives will be further analysed in the following sections.

The European Pollutant Release and Transfer Register Regulation 166/2006/EC came into force in February 2006. The PRTR Regulation requires operators of facilities to report on emissions and specific substances. The PRTR serves as a Europe-wide register of industrial and non-industrial emissions into air, water, and land, and off-site transfers of waste water and waste, and includes information from specific and diffuse sources.

The EU Eco-Management and Audit Scheme established in 1995 was revised in 2009 in accordance with Regulation EC No. 1221/2009. EMAS is a management tool for companies and other organisations, requiring them to evaluate, report and improve their environmental performance. One of the aims of the revision, which came into effect in January 2010, is to strengthen the rules on reporting through core performance indicators. To make the environmental statements that have to be published more relevant and comparable, organisations should report the environmental performance on the basis of generic and sector-specific performance indicators as defined by the scheme.

To further advance the discussion on ESG reporting, the European Commission hosted a number of multi-stakeholder workshops between September 2009 and February 2010. Different stakeholder groups (enterprises, investors, civil society, consumers and media, trade unions and public authorities) discussed their views on ESG disclosure and put forward proposals for European policy in this field.

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## 3.4 Public policies in the EU Member States

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### 3.4.1 Legal instruments

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Concerning legal instruments, it is important to note that during the last few years all Member States integrated the requirements of the Modernisation Directive, and most of them transposed Article 46 into national law. A survey carried out by the Federation of European Accountants in 2008 showed the following results. All 20 Member States that answered the survey had included Article 46 of the Modernisation Directive literally into their national legislation.<sup>6</sup> Seventeen countries have exercised the option of exempting small entities from having to disclose information on their non-financial performance; Lithuania, Portugal and Spain have not done so. The Netherlands and France provide additional guidance in relation to the implementation of the Modernisation Directive. [...]

One example of the implementation of the Modernisation Directive is the UK Companies Act 2006, which requires all UK companies – other than small ones – to provide information in their annual reports on the company's strategies, performance and risks (the so-called Business Review). Quoted companies (as defined in section 385 of the UK Companies Act) additionally should disclose, to the extent necessary for an understanding of the business, information on environmental, workplace, social and community matters in their annual reviews, as well as information about company policies in relation to these matters and about the effectiveness of those policies.

Besides implementing the Modernisation Directive, a number of European countries have adopted laws and regulations that go beyond its requirements. They use a 'comply or explain' approach instead of permitting companies the option of not reporting, since under European regulation information on ESG has to be included only to the extent necessary.

In the Netherlands, reporting on corporate governance and stakeholder dialogue became mandatory in 2008 for all stock-exchange listed companies registered in the Netherlands and with a balance sheet of more than 500 million euros on the basis of 'comply or explain'. The provisions have been integrated into the Dutch code for corporate governance, which was adopted in 2003. It requires companies to explain

<sup>6</sup> Countries that did not answer the survey on the implementation of Article 46 were Estonia, Greece, Latvia, Luxembourg, Malta and Slovakia.

how they implement international best practice for their management and supervisory boards.

Denmark made reporting mandatory for its 1,100 biggest companies as well as for state-owned companies from 2009 on. Companies have to provide information on their policies for CSR or sustainable and responsible investment, on how the policies are implemented and on their results, as well as on management expectations for the future. Denmark opted for not developing its own standard but to refer to and to encourage the use of international reporting frameworks, such as the UN Global Compact and the related Communication on Progress or GRI and the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development. CSR and SRI are still voluntarily; however, businesses without policies on social responsibility are obliged to provide information in this respect. There is no specific format on how information needs to be provided (in the annual report, as an addendum, on the website, and so forth), but the annual financial statement should make it clear where the stated information can be found. In Denmark the legislation has been an important trigger for increased CSR reporting. A recent study on impacts shows that 97 per cent of the companies examined comply with the reporting requirement and that 43 per cent of the companies accounting for CSR had not previously reported on CSR in their annual reports.

Sweden and Spain opted for additional legislation for state-owned companies. Sweden in particular, where reporting has been mandatory from January 2008 onwards, has significantly increased the reporting of its 55 state-owned companies.

### Box 3.1

#### **Good Practice: GRI reporting by Swedish companies**

Since January 2008, Swedish state-owned companies have been required to publish a sustainability report in accordance with the GRI guidelines. The sustainability reports need to be quality-assured by independent checks.

Reporting for state-owned companies is independent of size or industry, and is based on the 'comply or explain' principle. The financial report needs to explain how the GRI guidelines have been applied and to comment on any deviations.

ESG reporting of state-owned companies has increased significantly, and so far more than 94 per cent of the companies have issued GRI reports. Sweden is now the second among European countries in the number of its GRI reports.

With two years' of experience of mandatory CSR reporting in the Swedish state-owned companies, Uppsala University (commissioned by the Swedish Ministry of Enterprise) has studied the actual effects of the government's reporting requirements on the companies' sustainability work. The results show that the introduction of the new guidelines has affected the companies to varying degrees. The companies that lacked previous experience of sustainability reporting have gone through a more extensive process of change than those that were already submitting sustainability reports. The study shows also that the reporting requirement has led to increased commitment and awareness, more structured work and more structured processes, and that

sustainability issues have moved up the agenda and been given higher priority by managements and boards.

Reporting by state-owned companies in Spain is part of the Sustainable Economy Law, which passed the cabinet in March 2010 but for which parliamentary approval is still pending. It also includes various other disclosure requirements, such as the disclosure of the remuneration of company directors. State-owned companies will have to publish sustainability reports in accordance with commonly accepted standards, within a maximum of one year from the law coming into force.

There are other examples of relevant legal initiatives during the last few years that include mandatory reporting in specific areas. These include Ireland's Credit Institutions Act 2008, under which companies in the financial sector have to issue a CSR report of their activities through the Irish Banking Federation, or the decree issued by the Portuguese Department of Transportation and Communications in 2006, which makes it compulsory for the companies that are under its guardianship to publish a sustainability report.

Related to specific thematic areas, developments are taking place in the UK, for example. The Climate Change Act became law in the UK in 2008 and, in relation to corporate reporting, required the UK government to publish guidance on how companies should measure and report their emissions. It also required the government to review the contribution that reporting on greenhouse gas emissions may make to the achievement of the UK's climate change objectives and to lay a report before Parliament by 1 December 2010. The government must also introduce regulations requiring reporting by companies by April 2012 or explain to the UK Parliament why regulations have not been made. Additionally, a Carbon Reduction Commitment Energy Efficiency Scheme (CRC) that requires companies to measure all their emissions related to energy use and report on them to the Environment Agency is currently being implemented. Organisations to which the CRC applies will have to submit a Footprint Report of their total energy and emissions during the Footprint Year (April 2010–March 2011). Annual reporting will also be required (for further information see chapter 4).

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### **3.4.2 Economic and financial instruments**

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Only a few countries are using financial or economic instruments to foster CSR reporting.

One example is Spain, which under the Sustainable Economy Law (still to be approved by Parliament) creates incentives for companies to include or develop CSR policies, including reporting. Article 37 stipulates that the government shall provide companies, especially SMEs, with guidance and indicators that provide support for self-assessment in relation to their social responsibility, as well as reporting models or references that are in line with international reporting frameworks. The definitions of indicators and methodologies will be developed in cooperation with the State Council

on Corporate Social Responsibility. Companies that achieve the defined minimum threshold can voluntarily request recognition as socially responsible companies.

The Czech Republic is implementing an award for CSR and quality management. The qualification for participating in the National Prize of Quality is the publication of a CSR report, which has to be submitted to the government. The report needs to be developed according to a specific framework, which is freely available for download [...]. The reports are assessed by independent evaluators, who need to get to a consensus on the best report, which will then be published.

In Finland the Ministry of Employment and the Economy and the Ministry of the Environment hold yearly competitions on CSR reporting, which since 2008 have been broadened in scope and now additionally include CSR instead of solely environmental reporting.

The German Ministry of Labour and Social Affairs, together with the German Council for Sustainable Development, is participating in a project to rank the sustainability reports of the 100 biggest German industrial and service companies and the 50 biggest German financial service and commerce companies. Since 2009, there has also been a ranking for the best sustainability reports from SMEs. The objectives of the ranking include making sustainability reporting between German companies comparable, improving constructive competition between companies and fostering dialogue between different stakeholder groups. The ranking is undertaken by independent research organisations.

[Other existing instruments include those whereby the government as buyer fosters sustainability reporting through its sustainable public procurement policy rather than as a regulator. One example is the Netherlands, which from 2010 makes disclosure of ESG a requirement for suppliers.]

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### **3.4.3 Informational Instruments**

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As the Modernisation Directive does not provide specific guidance on reporting of non-financial information, a number of European countries provide guidance to help companies to comply with the statutory requirements. In the UK, the Accounting Standards Board has published a reporting statement which offers best-practice guidance on preparing an Operating and Financial Review. The statement provides voluntary guidance which may help companies to comply with the statutory Business Review requirements.

Italy published a Directors' report on financial statements in 2009. The report was issued by the Italian Accounting Association and can be considered as guidance for the implementation of the Modernisation Directive. The document sets out in detail what must be included in the annual report to comply with the Legislative Decree n. 32/2007 which transposed the Modernisation Directive into Italian law.

Additionally, the Public Function Department of the Prime Minister's Office in Italy published guidelines for social reporting by the Public Administration in 2006, while the

Italian National Agency for the non-profit sector published in 2009 guidelines for reporting by not-for-profit organisations, specifically referring to the GRI guidelines.

The Dutch Accounting Standards Board published guidelines for the integration of social and environmental activities in financial reporting. Existing guidelines on annual reporting have been reviewed, and guidance on separate social reporting has been issued. The guidelines were updated at the end of 2009, and cover different specific topics such as reporting on responsible supply chain practices or assurance.

France is one of the countries with an extensive legal framework related to ESG reporting (the New Economic Regulation Act on Reporting has been in place since 2001), which will be upgraded to non-listed companies in the future (see chapter 3.4.5). Nevertheless, stakeholders need further information, as well as training and capacity building, to be able to apply ESG reporting in an appropriate manner. The French Observatory for CSR has developed a web-based platform for CSR reporting on behalf of the government, based on the reflections of a multi-stakeholder committee within the Grenelle environmental framework (see chapter 3.4.5). It covers the most important reporting initiatives and serves as a framework for CSR. The content of the website will be constantly checked and updated by an expert committee consisting of different stakeholders with an interest in CSR reporting in France.

Another frequently used approach to promoting CSR reporting and to providing capacity building and information to companies is the organisation of events, conferences and seminars. For example, the Polish Ministry of Economy and CSRinfo organise conferences on CSR. The 2009 conference on CSR reporting in practice mainly addressed medium-sized and large companies and discussed trends, practical aspects of reporting, verification and generally communication of CSR.

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#### **3.4.4 Partnering instruments**

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To improve ESG disclosures, government bodies of different Member States participate in multi-stakeholder initiatives, or partner with other stakeholder to improve ESG disclosure in companies.

Further partnering instruments are discussed in chapter 3.4.5, which deals with hybrid instruments that combine aspects of partnering with either informational or economic instruments.

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#### **3.4.5 Hybrid instruments**

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Besides the aforementioned instruments, each of which can clearly be categorised as one of the four instrument types, a number of instruments combine different functions. One example is the so-called Grenelle framework in France, a clear mix of informational, partnering and legislative instruments.

In July 2007 the French Government organised multilateral consultations with representatives of regional and local governments, non-governmental organisations dedicated to environmental causes, employee unions, employers' federations, as well as consumer and family organisations; these consultations were also known as the 'Grenelle' on the environment. The proposals made by these stakeholders were subjected to public debate, discussed in Parliament and approved by the President. As a result of the Grenelle process the reinforcement of reporting on sustainability by corporate entities is now firmly on the agenda, and the government strives to include unlisted companies, including those in which the state directly or indirectly has a majority holding, under its New Economic Regulation Act.

A number of instruments combine aspects of informational and partnering instruments. In most cases these instruments provide guidance to companies on how to improve their CSR reporting, and are implemented jointly by the government and other organisations.

For example, the Danish Commerce and Company Agency supports a set of tools to improve CSR reporting by Danish companies. The different instruments range from the CSR Compass, providing guidance on CSR in the supply chain, to guidance for SMEs on how to implement the ten Global Compact Principles. Most of these tools are web-based and implemented in partnership with other actors. They help companies with specific information on different CSR-related topics and provide practical guidance for implementation.

An example of a hybrid instrument combining aspects of economic and informational instruments is the recently updated Transparency Benchmark from the Netherlands. It refers to international best practice and is endorsed and kept up to date by consulted stakeholders, including investors and companies, to ensure broad support and compliance while lowering information costs for both companies and readers of CSR reports. To achieve this, the ministry bears the cost of company participation in the benchmark for currently 100 companies. In 2010 this will be extended to a total of 500 companies. These include a number of state-owned companies, at the request of the Ministry of Finance.

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## **3.5 Conclusions and upcoming initiatives**

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### **3.5.1 General conclusions**

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Generally, countries are opting for a mix of voluntary and mandatory measures to improve ESG disclosure. While all Member States have implemented the EU Modernisation Directive, they have done so in different ways.

While the Modernisation Directive ensures a minimum level of disclosure, it is in many cases accompanied by additional legislation, guidance or other instruments to support its implementation and to improve the impacts of ESG disclosure.

There is a trend towards the development of regulations that integrate existing international reporting frameworks such as the GRI or the UN Global Compact Communication on Progress, and require the integration of relevant stakeholders so as to reflect change and to facilitate the continuous improvement of regulations.

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### 3.5.2 Upcoming initiatives

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The ESG workshops on disclosure that took place between November 2009 and February 2010 served as the basis for the discussion of hypothetical scenarios for the promotion of better and more widespread disclosure of ESG information on the European level. Five different scenarios taking into account regulatory and non-regulatory action have been discussed. The different scenarios include everything from staying with the current approach (the requirements of the Modernisation Directive as they currently are and support for exchange and dialogue) to strengthened mandatory principles and changing the Modernisation Directive to a 'comply or explain' approach.

ESG disclosure is one of three priorities of the new communication on CSR that the Commission expects to publish in 2011. [...]

A number of upcoming initiatives are either planned or still have to be approved by Member State governments.

The Spanish State Council on Corporate Social Responsibility has set up a 'Working Group on Transparency, Reporting and Standards' in sustainability reports that will present a study on the possible need to regulate the information that should be published in triple bottom-line reports of companies.

The Italian National Contact Point, the Italian Bankers' Association and the Italian National Business Association have been cooperating since the beginning of 2010 to define a set of standards for non-financial reporting, which could be taken into consideration in the appraisal of the firms' credit ratings by Italian banks.

According to the German CSR strategy launched in October 2010, the Federal Ministry of Employment and Social Affairs and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety will publish CSR reports based on GRI and the EMAS declaration, respectively. The reports will be published in the first reporting year following the launch of the strategy.

Other Member States have decided to become more active in ESG disclosure. Thus, Bulgaria has identified the need to regulate the obligation to draw up social reports in its national action plan.

In Poland CSR will be advanced in the form of an inter-ministerial working group (see chapter 1.3.2.2). Extensive discussions have been taking place on the future of reporting in Poland. The working group has submitted recommendations on increasing transparency and reliability to the Polish government, which will form the basis for future activities in the area of developing policy measures for ESG disclosure.

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## 4 The potential of CSR in tackling climate change

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### 4.1 Definition

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This chapter sheds light on the European Union's (EU) and Member States' policy initiatives that aim to unlock and strengthen the potential of Corporate Social Responsibility (CSR) in tackling climate change. As governments, civil society organizations and the media have become increasingly adept at holding companies to account for the impacts of their business activities on the climate, it is widely agreed that business plays an important role in mitigating climate change.

Business' contribution to tackling climate change in areas such as power generation, industry and manufacturing, transport, or building focuses on innovation and investment in clean technologies such as those related to energy efficiency, renewable energy, and sustainable mobility.

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### 4.2 Towards a low-carbon economy: development of CSR and its contribution to tackling climate change in Europe

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Recent economic analyses such as the Stern report as well as scientific analysis such as the 4<sup>th</sup> Assessment Report of the Intergovernmental Panel on Climate Change make a strong case for early action against climate change. It is in this context that both the public and private sectors in the EU increasingly recognise tackling climate change not only as an obligation but also as a chance to create new business and employment opportunities.

In its 'Europe2020' strategy, the EU Commission sets out the priority of sustainable growth based upon a more resource-efficient, greener and more competitive economy. Member States see major opportunities in the move to a low-carbon economy such as the strengthened competitiveness of companies and the creation of 'green' jobs in industry sectors related to climate protection. A similar approach is seen in the world of business. Ever more companies recognise that tackling climate change will create a competitive advantage for them, with the potential to prosper in a low-carbon and resource-efficient economy. It is particularly evident in the context of climate protection that business managers, government officials, academics and consultants attach the highest importance to making the business case for promoting sustainable business practice. Not surprisingly, a 2008 survey from the management consultancy McKinsey finds that most executives think that climate change matters for their companies.

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### 4.3 Public policies of the European Commission

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In light of the fact that both CSR and climate change are broad topics, there is a need for tools to define how businesses can contribute to tackling climate change. Environmental management systems (EMS) provide a systematic way of addressing and managing the short and long-term impacts of companies' production processes on the environment. As part of

the Sustainable Consumption and Production and Sustainable Industrial Policy Action Plan presented in 2008, the Commission initiated the revision of the Community Eco-Management and Audit Scheme (EMAS). The latest Regulation (EC) No 1221/2009 entered into force in January 2010. EMAS helps companies and other organisations strengthen their environmental performance; for instance, by reducing greenhouse gas (GHG) emissions. The scheme is voluntary and its provisions are only binding for those organisations that seek to register or maintain registration.

Since 2007, the EU has set up various legislative measures that affect businesses' role in tackling climate change. Particularly relevant in terms of companies' contribution to climate protection is the 'climate and energy package' and related legislation. The package, introduced in 2008 and finally adopted in 2009, focuses on three key areas: emission cuts, energy efficiency and renewables.

The most prominent initiative of this package is the unilateral commitment of the EU to cut emissions to 20 per cent below 1990 levels by 2020. The EU has also offered to increase its emission reduction targets to 30 per cent by 2020, provided that other major emitting countries commit to do their share under a global climate agreement.

The cornerstone of the EU's strategy for cutting emissions is the EU Emissions Trading Scheme (EU ETS), which the 'climate and energy package' significantly revised. A single EU-wide cap on emission allowances will apply from 2013 and will be cut annually. Consequently, the number of allowances available to businesses will be reduced to 21 per cent below the 2005 level by 2020. This, in turn, means that businesses may need to purchase additional allowances if they exceed their emission quotas. EU ETS thus has a direct impact on business by putting a price on their carbon emissions.

Furthermore, energy efficiency achieved by reducing energy consumption and eliminating energy wastage is among the main goals of the EU. Even though the 'climate and energy package' includes the target of improving energy efficiency by 20 per cent by 2020, the issue is not directly addressed through specific measures. In support of the 'climate and energy package' and its energy efficiency target, the Commission has proposed an 'energy efficiency package' in 2008. In order to generate fresh momentum in the drive for energy efficiency, it includes a set of energy efficiency proposals designed to encourage energy savings in key areas. For instance, in May 2010 the Energy Labelling Directive (2010/39/EU) was revised so that it applies to energy-using and energy-related products, not to household appliances alone. In addition, the Directive introduces new efficiency classes. It has a significant impact on companies, since the new labels are mandatory for selected products and must be applied by companies to the products they sell. Consumers are thus able to choose appliances on the basis of their energy efficiency; and, in turn, companies are encouraged to produce more energy-efficient products. Given that households account for 25 per cent of energy needs in the EU, raising awareness on energy efficiency of products through labelling and thereby affecting consumer preferences can be an important instrument encouraging companies to contribute to energy efficiency and, as a result, climate protection.

In addition to emission reduction and energy efficiency, renewable energy is a third focus of the 'climate and energy package'. The EU emphasises that renewable sources of energy such as wind power, solar energy or biofuels are essential alternatives to fossil fuels. The Renewable Energy Directive (2009/28/EC) sets an overall EU target of 20 per cent renewable energy in total energy consumption by 2020, translated into binding national targets for

Member States. A particular emphasis is placed upon establishing sustainability criteria for biofuels. Only biofuels that meet the EU's sustainability requirements can count towards the targets prescribed in the Directive. One of the main criteria is the GHG reduction potential; biofuels must deliver GHG savings of at least 35 per cent compared with fossil fuels, rising to 60 per cent for biofuels from new plants. These criteria have a direct impact on biofuels producers and their sourcing approach to raw materials or companies whose supply or value chain includes the use of biofuels.

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## 4.4 Public policies in the EU Member States

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### 4.4.1 Legal instruments

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Environmental regulations that contribute to climate protection have been implemented in various Member States. For example, in 2007 the German government launched the 'Integrated Energy and Climate Programme', which includes 14 Acts and ordinances relating to energy efficiency, renewable energy and other issues related to climate protection.[...].

However, setting up legally binding GHG emission reduction targets at the international and Member State levels is challenging. The United Kingdom (UK) is the world's first country to have adopted such legally binding targets. The UK government aims to make the transition to a low-carbon economy, while ensuring that the UK benefits from the business and employment opportunities that this transition may bring.

#### Box 4.1

##### Good Practice: The UK's Climate Change Act

The UK's Climate Change Act of 2008 has created a new approach to managing and responding to climate change. The Act sets legally binding GHG emission reduction targets for 2020 (reducing GHG emissions by 34 per cent) and for 2050 (reducing GHG emissions by at least 80 per cent). The aim of the Act is to instil greater confidence in making low or zero carbon investments throughout many economic sectors, including transport, power generation, residential property and services. Key provisions of the Act are the five-yearly carbon budgets for all major UK government departments to help ensure the emission reduction targets are met. This carbon budgeting system, which caps emissions over five-year periods and sets three budgets set at a time, has been set up to help the UK stay on track for the 2050 target. The first three carbon budgets, set in May 2009, run for the periods 2008–12, 2013–17 and 2018–22. The newly created Committee on Climate Change (CCC), an independent expert body, advises the government on the level of carbon budgets and on where cost-effective savings can be made across the economy. The CCC submits annual report on the UK's progress towards meeting targets and budgets.

#### 4.4.2 Economic and financial instruments

Prizes and awards are used by Member States both to encourage businesses to intensify their measures to tackle climate change and to reward those businesses which have already taken ambitious steps in the field of climate protection. Incentives used by Member States particularly aim at spurring technical innovations.

In order to promote solutions for the reduction of GHG emissions, the Polish Minister of Economy annually awards the 'eCO<sub>2</sub> Innovation' prize in the 'Polish Product of the Future' competition. The prize is awarded to the product with the greatest potential to reduce GHG emissions.

Germany inaugurated the 'Innovation Prize for Climate and Environment' in 2009. Awarded jointly by the Federal Environment Ministry and the Federation of German Industries, the prize is for technological innovation by companies in the field of climate change and environmental protection. Five prize-winning categories exist; two of them explicitly address climate change in relation to product and process innovations aimed at reducing GHG emissions. The prize money amounts to €125,000.

The prize is one of several initiatives that have been set up under the banner of the 'National Climate Initiative', which was launched in 2008 with the aim of merging ecological and economic interests. The initiative has a strong emphasis on innovation as it promotes the use and development of new technologies. Climate protection is thereby presented as the new driving force of industry.

##### Box 4.2

##### Good Practice: Italy's Industrial Innovation Projects (IIP)

Italy supports CSR-driven innovation in the field of climate change by making it more attractive for companies to invest in new technologies or research and development measures. In 2007 the Italian government launched 'Industrial Innovation Projects' (IIP) as part of the 'Industria 2015' strategy. IIP aims to encourage the development of innovative products and services in strategic areas such as energy efficiency or sustainable mobility. It supports the overall aim of 'Industria 2015', which is to ensure the strategic repositioning of Italy's industry in the global economy.

IIP explicitly address climate change. The 'Energy Efficiency for Competitiveness' project finances highly innovative projects in the private sector, including experimental and industrial research prototypes of services and products having a relevant impact on national production systems or infrastructure. Thirty-seven projects have been selected and financed; the investments, which amount to €500 million, have been co-financed by the Government with €200 million nationwide, plus €51 million of structural funds for Convergence Regions. The projects introduce innovation in technologies and services in areas such as solar and wind energy production, bioenergy and waste recovery energy production, and energy efficiency in production processes.

The 'Sustainable Mobility' project, in partnership with several research centres, finances projects in the private sector, which aim at developing safer and more eco-compatible

systems and vehicles for transportation. Solutions include innovative products such as 'green' cars and service innovations such as intermodal transport systems and integrated traffic systems. Twenty-five projects have been selected and financed; the investments, which amount to €450 million, have been co-financed by the Government with €180 million, plus €24 million of structural funds for Convergence Regions.

Germany has launched several partnership initiatives with the private sector that provide financial incentives to encourage business to contribute to climate protection. The German Government gives financial support to projects within partnering approaches such as 'Partnership for Climate Protection, Energy Efficiency and Innovation' or the 'National Climate Initiatives'.

Linking the issues of climate change, energy efficiency and innovation, in 2009 the German Government and the Association of German Chambers of Industry and Commerce launched the 'Partnership for Climate Protection, Energy Efficiency and Innovation'. The aim of the partnership is to encourage companies to greatly increase their investment in energy efficiency and climate protection and to promote these investments as economically viable. The Ministry of Economics and Technology and KfW Bankengruppe are providing funding to facilitate access to advice and consultation on energy efficiency as well as low-interest loans from the 'Special Fund for Energy Efficiency in SMEs'.

As part of the 'National Climate Initiative', the German Ministry for the Environment provides financial support to the '30 Climate Networks' by bearing one third of the costs. Thirty climate and energy-efficiency networks of companies are being supported from 2009 to 2013. The aim of the project is to substantially reduce energy consumption and CO<sub>2</sub> emissions in participating companies. The scheme involves around 400 medium-sized enterprises, which form local-learning networks of 10–15 members. Within these networks enterprises exchange their experience with regard to climate protection and energy-efficiency measures. The project is intended to boost German companies' contributions to climate protection, innovation and competitiveness.

In addition, Germany emphasises the relationship between climate protection, development policy and sustainable entrepreneurship. In 2010 the German Ministry for Economic Cooperation and Development launched the 'develoPPP.de' programme to promote cooperation between business and development agencies. German or European companies are supported financially when they seek to contribute to sustainable development through their business operations in developing countries. The aim of the partnership is to combine the innovative power of businesses with the resources, the knowledge and experience of development work. Several projects within the programme include climate protection among their goals.

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#### 4.4.3 Informational instruments

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Informational instruments in the context of climate change used by Member States such as fact sheets, workshops, conferences, or guidelines aim both to disseminate information on

how business can contribute to climate protection and to educate the public about the necessary steps to take in order to contribute.

In light of the introduction of the latest Regulation on EMAS, Estonia and Poland have engaged in information and promotion campaigns to support the uptake of the environmental management scheme.

In 2010, the Estonian Ministry of the Environment organised several EMAS workshops on improving the environmental management practices of public authorities. Training sessions for civil servants have taken place throughout the country. The focus of the training sessions was on local authorities as key players in local economies through their responsibilities with regard to schools, waste disposal or road maintenance.

The fourth 'EMAS Roundtable' took place in Balatonszárszó, near Lake Balaton, Hungary in June 2010. New features of EMAS III, its harmonisation with national law, and several related issues were presented and discussed. The event was organised by the EMAS-registered Lake Balaton Development Coordination Agency within the 'CHAMP Project'. Almost all organisations from the national EMAS register took part in the event, along with several potential EMAS-registered organisations.

In addition, a one-day workshop was held in Budapest, Hungary in May 2010 on the topic of EMS and CSR. The event, organized by the Hungarian National Inspectorate for Environment, Nature and Water in cooperation with the European Organisation for Quality, attracted many interested participants from companies, certifying bodies and auditing firms.

Environmental management systems are not the only approach for companies to improve their environmental performance and actively contribute to climate protection. Eco-innovations such as innovative products, services and technologies also play an important role for companies to support tackling climate change. In 2007, the Finnish Ministry of the Environment produced a series of fact sheets on companies' 'best practice' eco-innovations. Several fact sheets address the issue of climate change, for instance by analysing a business model for the increased use of bioenergy in households. The fact sheets aim to provide solutions and key success factors to challenges related to climate change and other environmental issues to companies and other public and private actors.

According to the EU Commission's Joint Research Centre, there is a growing demand for information about carbon footprints. Measuring the carbon footprint of a product provides customers and other stakeholders with broad life-cycle information about companies' products. In 2009, a seminar entitled 'Carbon Footprint in Practice' was organised by the Polish Ministry of Economy and CSRinfo, a private organisation. The aim of the seminar was to familiarise companies with the idea of emissions management. [...]

#### Box 4.3

##### **Good Practice: France's and Denmark's web-based carbon footprint tools, the 'Bilan Carbone' and the 'Climate Compass'**

A possible way to inform companies about the potential of CSR in tackling climate change is to introduce easily accessible online tools. In 2010 the French Environment and Energy Management Agency introduced a new version of the carbon footprint software 'Bilan

Carbone. The 'Bilan Carbone' method is a multi-step tool for assessing GHG emissions. When GHG emissions are assessed, a module measures a company's vulnerability to fluctuations in energy prices and exposure to taxation of GHG emissions. The tool can be used to account for the GHG emissions of all types of organisation: industrial or tertiary companies, administrations or local authorities.

As in France, the Danish government has launched a web-based tool, the 'Climate Compass'. Introduced in 2008, the 'Climate Compass' offers guidance to companies preparing a climate strategy that reduces their GHG emissions step by step. Companies can calculate their carbon footprint by using the 'Carbon Calculator', an element of the 'Climate Compass'. The 'Climate Compass' also presents case studies disseminating information on how companies have reduced their climate impact and used it to strengthen their competitiveness. The Climate Compass is developed by a partnership between the Confederation of Danish Industries and the Danish Commerce and Companies Agency under the Danish Ministry of Economic and Business Affairs. It has been translated into English, Swedish and Norwegian.

Consumption patterns can significantly contribute to tackling climate change when consumers purchase sustainable products or services. In cooperation with manufacturers and retailers, the Dutch Ministry of Environment has developed an energy indicator showing the amount of energy an appliance uses (not in kWh, but in euros). This information makes it easier for consumers to check whether an initially expensive appliance will pay off in the near future due to advanced technology leading to energy savings. In order to enable consumers to directly compare products, information on energy use is presented next to the purchasing price of the appliance. The project, which went online in 2010, is implemented on a voluntary basis. The energy indicator complements the existing obligatory energy label. So far, information on energy labels has been given only in kWh. Some appliances already fall within the scope of the energy indicator, for which the obligatory energy label is not yet in force (for instance, televisions).

Germany, like other EU Member States, committed itself under the Kyoto Protocol to reduce GHG emissions. In 2010, the German Ministry for the Environment launched a brochure on 'Activities of German Companies and Institutions on JI/CDM'. The document provides information about business activities with regard to the two climate protection instruments 'Joint Implementation' and 'Clean Development Mechanism', which have been established under the Kyoto Protocol for countries to attain their reduction targets under the Protocol.<sup>7</sup> The document can be used by other companies looking for examples of how to approach the two instruments.

<sup>7</sup> 'Joint Implementation' (JI) and 'Clean Development Mechanism' (CDM) are two project-based investment mechanisms. With JI, industrialised countries are credited with emission reductions attained when they invest in other industrialised countries. With CDM, industrialised countries attain emission reductions when they invest in infrastructure improvement projects in developing and emerging economies.

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#### 4.4.4 Partnering instruments

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Partnerships can be a valuable instrument for climate protection in combining the expertise and resources of different actors. Initiatives often emerge from cooperation between the public and the private sectors.

Poland has broadened its set of institutions designed to strengthen the potential of CSR to tackle climate change. In 2008 the Polish Ministry of the Environment launched 'Partnership for Climate', a platform for cooperation with business, NGOs and local governments. The aim of the platform is to undertake joint initiatives at various levels – local, regional and national – to raise awareness of climate protection. [...]

In Portugal, a forum on climatic change issues was created in 2009. The forum is based on a multi-stakeholder approach as it includes social partners, companies, NGOs, universities and public administration. The aim of the forum is to evaluate public policy instruments in the area of climate change.

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#### 4.4.5 Hybrid instruments

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Numerous Member States combine several policy instruments, either through launching strategies and action plans focusing on climate change and CSR or through institutionalised platforms.

Various Member States have developed or revised sustainable development strategies that cover the issue of climate change. Among the Member States that have set in place such strategies or elaborated on existing strategies since 2007 are the Czech Republic, Germany, Finland, France, Hungary, Malta, Poland, Portugal, Romania, Spain, and Sweden, [...]. In general, these strategies, most of them follow-up strategies, summarise the key issues, challenges, objectives and potential solutions with regard to climate change. The strategies highlight the necessity of private sector participation in tackling climate protection. Several strategies also link climate change to energy efficiency.

For instance, Portugal's 'National Strategy for Sustainable Development' from 2007 sets out seven objectives of action, including sustained growth, global competitiveness and energy efficiency. [...]

In 2010, the Czech government adopted a strategic framework on sustainable development, which contains indicators on the economy and innovation that take into account CSR and climate change. [...]

As well, several Member States have set up or revised national strategies or action plans on climate change. Among the Member States that have done so since 2007 are Austria, Belgium, Finland, Ireland, Malta, Spain, and the UK [...]. National strategies and action plans on climate change, which can be linked to national strategies on sustainable development, provide a framework for reducing GHG emissions. The strategies and action plans on climate change mostly refer to the emission targets enshrined in the Kyoto Protocol.

[For example, the Finnish National Energy and Climate Strategy launched by the National Government in 2008 sets out objectives and concrete actions for various economic sectors in

order to achieve the targets set by the EU as part of its climate and energy package. Economic control and guidance mechanisms such as EU ETS or taxes are identified as the main means to achieve a substantial decrease in emissions in Finland. The strategy document also emphasises that the promotion of energy-saving and emission-free energy technologies is a valuable contribution to emission-reduction goals. Furthermore, the strategy encourages business to introduce measures in their corporate strategies for adapting to climate change. This, in turn, may encourage business to spur innovations in energy-efficient and low-emission technologies.]

Malta's final report on the 'National Strategy for Policy and Abatement Measures Relating to the Reduction of Greenhouse Gas Emissions', prepared for the Ministry of Resources and Rural Affairs in 2009, identifies policy and abatement measures relating to the reduction of GHG emissions. The report, which (inter alia) elaborates on the role of industry in climate protection, makes recommendations on policy issues such as the introduction of an integrated energy and climate change programme involving policy sectors such as power generation and transport.

The Spanish strategy on climate change and clean energy, approved by the cabinet in November 2007, forms part of the Spanish Sustainable Development Strategy and addresses a variety of measures such as [...] that contribute to sustainable development in the area of climate change and clean energy. Industry sectors addressed include transport and power generation. [...]

A few Member States – Belgium, Bulgaria, Germany, Lithuania, and the Netherlands [...] – have set up CSR strategies that identify climate change as a major challenge to be addressed: For instance, Bulgaria's CSR strategy from 2009, launched by the Ministry of Labour and Social Policy, aims to raise awareness of the need for a CSR business culture. [...]

#### **Box 4.4**

##### **Good Practice: Denmark's corporate sector's climate responsibility**

Denmark is a frontrunner in the development of an 'Action Plan for Corporate Social Responsibility'. The plan aims to promote CSR and to help Danish businesses to be better prepared for being in the global vanguard of CSR. It contains a total of 30 initiatives in four key areas, one of which is the 'Corporate sector's climate responsibility'. The Danish government wants to underpin an active role for businesses in meeting global climate challenges by reducing energy consumption and GHG emissions in their own and suppliers businesses, while also contributing to developing and disseminating global climate solutions. The Action Plan was presented by the Danish Ministry of Economic and Business Affairs in 2008.

In addition, in 2009 the Danish government launched a business strategy focusing on Danish companies' potential contribution to climate protection. The strategy encompasses several initiatives such as [...] that facilitates and motivates green growth and reduced GHG emissions. [...]

In order to achieve the emission targets outlined in the UK Climate Change Act, the Department for Energy and Climate Change (DECC) is working with other government departments in helping the UK make the transition to a low-carbon economy. DECC's work is underpinned by the following strategies, which aim to ensure that the UK benefits from the business and employment opportunities the transition will bring:

- The UK Low Carbon Transition Plan

The wide plan outlines how the UK will meet the 34 per cent cut in emissions of 1990 levels by 2020, and sets out the key steps to achieving the emission cuts for sectors such as buildings, transport and power generation.

- The UK Renewable Energy Strategy

The strategy, a response to the EU Renewable Energy Directive, sets out the role of business and other stakeholders in promoting renewable energy and achieving the goal of 15 per cent of total energy to be generated from renewable sources by 2020.

- The UK Low Carbon Industrial Strategy

The strategy outlines the actions businesses and workers can take in order to support a low-carbon economy.

- Low Carbon Transport: A Greener Future

The strategy presents measures to transform the transport sector, for example by improving the fuel efficiency of new conventional vehicles.

Although the UK is the only Member State that has set up legally binding GHG emission reduction targets, several other Member States (the Netherlands, Germany, [...]) have set non-binding targets in order to meet their commitments under the Kyoto Protocol.

For example, in 2007 the Netherlands launched the inter-ministerial programme 'Schoon en Zuinig' ('Clean and Efficient: New energy for climate policy'). The programme outlines the Netherlands' approach to protecting the climate. Key targets of the government plan for energy saving, sustainable energy and storage of CO<sub>2</sub>, which involves seven ministries, are a 30 per cent reduction in the 1990 level of CO<sub>2</sub> emissions by 2020, doubling the rate of energy saving from one to two per cent a year and increasing the share of renewable energy in total energy use from two per cent to 20 per cent by 2020. The programme contains a set of measures for each economic sector and for Dutch citizens, such as market instruments, standards, subsidies, innovation and climate diplomacy.

[Setting up new institutions can be another instrument to promote business contributions to tackling climate change by facilitating cooperation between public and private actors. Resources and production materials form the vital basis of today's economies. Increasing resource and material efficiency can thus play an important role in tackling climate change. In Finland, the newly founded Service Centre of Material Efficiency promotes the increase of material efficiency in enterprises, public sectors, and households. Currently the system of material efficiency is in the pilot phase. The aim is to improve material efficiency on the basis of agreements between the public sector and sectors of industry.]

In this context, a number of studies were published in 2009 which assessed the environmental effects of material streams on the national economy ('ENVIMAT'). [...]

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## **4.5 Conclusions and upcoming initiatives**

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### **4.5.1 General conclusions**

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The policy initiatives of the EU and Member States make use of the entire range of policy instruments, following the typology applied in this Compendium. Frequently used are particularly economic and financial instruments as well as informational instruments. Both types of instrument generally aim to help companies identify the 'business case' for climate protection.

Several Member States' policy initiatives link climate change with two core business concerns: innovation and resource efficiency and energy efficiency. The underlying rationale of the initiatives is that environmental and economic interests go hand in hand and create a 'win-win' situation for the private and the public sectors. [...]

With the linkage between climate change and innovation, the rationale is to make use of the innovative power of business to tackle climate change. Initiatives rest predominantly upon economic instruments, aiming to provide incentives for business to invest in innovative industrial technologies that support climate protection. [...]

Several Member States' policy initiatives also link the challenges of climate protection and improving resource efficiency and energy efficiency. The initiatives reflect the belief that measures taken by business to protect the climate pay off financially through energy efficiency gains, because, by lowering energy costs, companies can make production more cost-effective overall, thus improving their competitiveness. [...]

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### **4.5.2 Upcoming initiatives**

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Climate change currently stands out as a high-profile political and business issue. It is thus not surprisingly that several policy initiatives are currently being developed or implemented.

As part of its CSR action plan from 2010, the German government plans to further strengthen the 'develoPPP.de' programme to promote cooperation between business and development agencies. Additionally, the government aims to promote CSR practices in companies' raw materials purchasing processes.

[...]

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## 5 CSR in small and medium-sized enterprises

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### 5.1 Definition

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Small and medium-sized enterprises (SMEs)<sup>8</sup> are the backbone of Member States' economies: there are some 23 million SMEs in the European Union (EU), which provide around 75 million jobs and account for 99 per cent of all enterprises. Collectively, SMEs are important drivers for economic growth, social cohesion and regional and rural development in the EU. Additionally, SMEs collectively have significant impacts on the environment through their activities, products and services. Hence, in order to fulfil social, environmental, and economic objectives of Corporate Social Responsibility (CSR), an active contribution of SMEs is vital.

Most SMEs have always been well established in the communities where they are located and have made a significant contribution to local socio-economic development. Against this background, SMEs have developed a 'naturally responsible approach to business' even if they may not be familiar with CSR or use the term. Responsible business practices in SMEs are considered to be less formal than those in larger companies.

The European Commission emphasises that 'corporate social responsibility' as a term and a definable business concept has been created mainly by and for larger companies. It is thus important to understand that SME responses to CSR may differ because of cultural differences caused by geographical location, ownership structure or strategic direction. For example, a manager in an SME may perceive CSR as being local in scope or the benefits as being intangible. Public policies should thus focus on helping and encouraging SMEs understand the concept of CSR, to further strengthen their commitment to CSR and to address CSR in a strategic and systematic manner.

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### 5.2 Towards a more strategic CSR approach: development of CSR in SMEs

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The European Multistakeholder Forum on CSR in 2004 found that 'we know relatively little about the scale and impact of CSR amongst SMEs'. Since then the importance of CSR in SMEs has been increasingly acknowledged, and growing interest in the area of CSR and SMEs has been observed both in the EU and in Member States.

The Small Business Act<sup>9</sup> for Europe from 2008, which is a key policy document on SME policy, recognised sustainable development as a key challenge for SMEs in response to

<sup>8</sup> SMEs are defined as enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euros, and/or an annual balance sheet total not exceeding 43 million euros. Small and medium-sized enterprises are defined in the Commission Recommendation 2003/361/EC of 6 May 2003.

<sup>9</sup> The 'Small Business Act' for Europe is a set of ten principles which should guide the conception and implementation of policies at both EU and national levels. It also includes a package of measures such as legislative proposals which translate the principles into action at EU and Member State levels.

which they need to adopt more sustainable production and business models. The actions outlined in the document are designed to support SMEs as well as social economy enterprises since most of them are made up of SMEs. Similarly, in the 'EU 2020' strategy the European Commission stresses the importance of CSR among SMEs for growth, job creation and sustainable development in Europe. Furthermore, a European Expert Group on CSR and SMEs was formed in 2005 and was active until 2007. The Expert Group served as a forum for the collection and exchange of ideas and experience on how best to support CSR among SMEs. Key CSR topics identified by the Expert Group include awareness raising of CSR among SMEs, how to implement CSR strategies in SMEs, and exploring the business case for CSR in SMEs.

Given that SMEs are crucial to their economies, Member States' activities on CSR policies designed for SMEs have increased as well. However, it is too early to conclude that the concept of CSR in SMEs has fully taken root, since CSR as a strategic business practice is a quite recent concept for SMEs in some Member States.

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### **5.3 Public policies of the European Commission**

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Since CSR was created primarily by and for larger companies, several EU public policy initiatives aim both to familiarise SMEs with the concept through practical approaches such as good practice examples and to generate information for policymakers on the key CSR challenges SMEs face.

In 2007 the EU presented the report 'Opportunity and Responsibility', which highlights ways in which SMEs can best embrace CSR. Topics covered include 'SMEs and supply chain' and 'the business case of CSR for SMEs'. The document, which is the final report of the European Expert Group on CSR and SMEs, outlines how organisations can assist SMEs to improve their social, environmental and financial performance. It aims to provide ideas for new and better policy initiatives.

In addition, the Expert Group produced a series of one-page good-practice descriptions, which explain how organisations have supported SMEs engaging in CSR. For example, one case study focuses on how CSR was integrated into a regional development strategy in north-west England to increase the competitiveness and attractiveness of a region. The initiative offers training to SME support organisations and develops tools to measure CSR improvements in the region.

Also in 2007, the European Commission launched the free online information service 'The European Responsible Entrepreneurship Bulletin'. Its aim is to facilitate the exchange of information and ideas among people and organisations around the topics of CSR, SMEs and responsible entrepreneurship.

Given that 20 per cent of European SMEs are in the retail sector, the European Commission presented the 'Retail market monitoring report' (SEC(2010)807) in 2010, which assesses issues affecting or likely to affect economic, social and environmental performance. The conclusions drawn from this report will be used to define measures which to improve public policy on SMEs.

Providing a practical approach to environmental protection, the European Commission launched the 'Environmental Compliance Assistance Programme' (ECAP) in 2007 to support SMEs with regard to their compliance with a wide set of environmental legislation. As part of ECAP, the European Commission has initiated an 'on-the-job pilot training project' to support the exchange of good practice with regard to environmental compliance. The pilot project, launched in 2010, involves two on-the-job training sessions, two study tours and a final conference where final reports on the activities will be presented. Since 2007 ECAP capacity-building seminars have been held in 16 EU Member States.

In addition to launching information campaigns, the European Commission is funding initiatives with respect to CSR in SMEs. The European Commission has co-financed initiatives to support CSR in three industrial sectors: chemicals, textiles and construction. The three projects were launched in 2008 with a duration of 18 months:

Through the 'PRISME2' project the EU Commission promoted responsibility of SMEs in the chemical industry. The project, in which the Commission is partnering with the Centre for Tomorrow's Company from the United Kingdom and the European Mine, Chemical and Energy Worker' Federation from Belgium, is designed to better integrate SMEs in 'Responsible Care'<sup>10</sup> and to improve their environmental, health and safety management. The Commission supports the project financially. With the objective of building capacity in SMEs within the chemical industry, partners of the project will become mentors providing SMEs with training and expertise in issues of 'Responsible Care', in particular in health and safety.

The 'BRE project' aimed to foster CSR within the construction sector by involving some large companies, SMEs that are part of the supply chain, and relevant stakeholders such as business associations, trade unions and universities. The objective of the project was to analyse the relationship between competitiveness and sustainability efforts as well as the value created both for companies committed to CSR and their stakeholders. The project has produced guidelines to enhance CSR: by analysing 44 best practices in different areas, it shows how the adoption of socially responsible behaviour can enhance the competitiveness of businesses in the construction sector and the respective territory. Led by the Italian non-governmental organisation (NGO) Impronta Ethica, the project targeted areas in Austria, Hungary, Italy, Portugal and Spain.

The 'COSMIC' project aimed to analyse the relationship between CSR and competitiveness along the textile/clothing supply chain, including identifying the role played by demand factors and the main voluntary CSR instruments.

Additionally, from 2006 to 2008 the EU Commission co-financed 14 projects through the funding programme 'Mainstreaming CSR among SMEs'. The aim of the project was to support the uptake of CSR practices among SMEs. Seventy-five organisations partnered with the EU in the projects, in which with 450 other organisations were involved. Three thousands SMEs were directly assisted. Projects focused on, for example, training business advisors for

<sup>10</sup> 'Responsible Care' is the chemical industry's global voluntary initiative under which companies work together to continuously improve their health, safety and environmental performance as well as to communicate with stakeholders about their products and processes. Further information is available at: <http://www.responsiblecare.org/page.asp?p=6341&l=1>

SMEs or setting up guidelines for multinational companies showing how best to manage CSR supply chain requirements in a way that maximises the benefits for buyers and SME suppliers alike.

Furthermore, the European Commission has funded the Leonardo da Vinci project 'Sustainability and social responsibility through learning in SME'. The aim of the project was to transfer and further develop an innovative methodology based on the Balanced Scorecard approach to the development of a CSR strategy within SMEs in Europe. Partners from Bulgaria, Cyprus, Latvia, Lithuania, Portugal, Spain and Romania participated in the project between 2008 and 2010.<sup>11</sup>

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## 5.4 Public policies in the EU Member States

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### 5.4.1 Legal instruments

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Legal frameworks can set obligatory general requirements with regard to the integration of SMEs into CSR.

The Italian Workers' Compensation Authority (INAIL) provides grants to support SMEs in the development of CSR policies. The application of the Italian Legislative Decree 81/08 from 2008 requires that INAIL has been designed for funding micro-enterprises and SMEs that invest in innovative solutions and organisational measures focused on CSR.

#### Box 5.1

##### Good Practice: Spain's Order on CSR and SMEs

The vast majority of Spanish companies have fewer than 50 employees. It is thus important for the Spanish government to foster a culture of CSR particularly in SMEs. In February 2010 the Spanish Ministry of Labour and Immigration issued an order (TIN/310/2010) on the promotion of CSR with particular reference to SMEs. [...]

[...]

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### 5.4.2 Economic and financial instruments

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Additional barriers to active CSR engagement on the part of SMEs include their lack of financial resources to approach CSR in a strategic manner as well as the lack of financial incentives for SMEs to commit themselves to CSR – for example, their belief that CSR does

<sup>11</sup> The Leonardo da Vinci Programme funds practical projects in the field of vocational education and training. Initiatives range from those giving individuals work-related training abroad to large-scale co-operation efforts.

not add financial value. Economic instruments to support SMEs financially can thus be valuable public policy measures to overcome these barriers.

Through the 'Micro-Credit Fund Germany' ('Mikrokreditfonds Deutschland') initiative launched in 2010, the German government is financially supporting SMEs and entrepreneurs. The fund, which is financed by the European Social Fund and the Federal Ministry of Labour and Social Affairs, aims to establish a nationwide funding scheme that particularly supports SMEs and enterprises founded by women and people with migration backgrounds, as well as social economy enterprises.

In addition to contributing to improved environmental performance, energy-efficiency measures can significantly improve SMEs' financial performance. However, SMEs can face various barriers to initiating energy-efficiency measures. Most SMEs lack not only sufficient knowledge of their energy-saving potential, but also financial resources to innovate energy-efficiency technologies. Furthermore, incentives to reduce energy may be too small in light of rather small share of energy costs in total costs. Against this background, in 2008 the German Federal Ministry of Economics and Technology together with the KfW bank established the 'Special Fund for Energy Efficiency in SMEs' to tackle both informational and cost barriers faced by SMEs. The programme has an advice component and a financing component. The advice element provides grants for SMEs to obtain advice and consultation regarding energy efficiency. The financing element provides SMEs with low-interest loans for investment in energy-conservation measures.

#### **Box 5.2**

##### **Good Practice: The Netherland's 'Crystal Award'**

CSR reporting is becoming more important for SMEs not only to communicate their CSR commitment to local stakeholders but also to meet the needs of multinational enterprises, which demand that SMEs, being a vital part of many MNCs' supply chains, are transparent with regard to their business activities.

In order to stimulate CSR reporting by SMEs, the Dutch Ministry of Economic Affairs annually invites SMEs to participate in the 'Transparency Benchmark'. When joining this initiative SMEs provide information about the transparency and quality of their sustainability reporting. The winner is awarded the 'Crystal Award' [...]. The initiative is carried out by the knowledge centre MVO Nederland, which the Dutch government established in 2004 to promote the adoption of CSR by SMEs. It represents about 1,000 companies, employers' organisations and NGOs. The centre offers SMEs practical knowledge, good practice, tools, research and opportunities for networking, stakeholder dialogue and partnering. [...]

[...]

### 5.4.3 Informational instruments

Barriers to SMEs engaging in CSR efforts include the absence of public policies on CSR suitable for SMEs because of a lack of information about SMEs' approach to CSR and a lack of knowledge on the part of SMEs about how to approach CSR in a strategic and businesslike way. Various Member States have launched initiatives that aim to overcome these barriers.

In order to understand SMEs' approach to CSR, the 'SME-nvironment' survey was conducted by NetRegs in 2007. The aim of the survey was to reveal environmental attitudes and behaviours of SMEs. NetRegs is a partnership among the United Kingdom environmental regulators – the Environment Agency in England and Wales, the Scottish Environment Protection Agency and the Northern Ireland Environment Agency. [...]

In order to support the implementation of the Finnish 'Development Strategy of CSR for SMEs' from 2008, the Ministry of Employment and the Economy (MEE) published and commissioned in 2009 a good-practice brochure on CSR in SMEs (the English version became available in autumn 2010). The brochure includes company examples of how to implement CSR approaches in order to assist SMEs in developing their own responsibility-based operations, products and services.

The Italian Centre for Social Responsibility, an independent think tank established by the Italian government, published in 2008 a collection of good practices on 'Health and Safety in Italian Small and Medium Enterprises – a socially responsible approach'. As part of the research a framework on Health & Safety issues was elaborated in addition to a platform of good practices in the area. The aim of the initiative was to provide Italian SMEs with a practical tool to be used for benchmarking, monitoring and comparing performance with regard to Health & Safety issues.

Denmark's 'Ideas Compass' launched in 2010 is a website where SMEs can gain knowledge about examples of SMEs' good CSR practices. The website instructs SMEs on how sustainability can be strategically integrated into core business activities. The focus of the initiative is on CSR-driven innovation understood as a process focusing on current social and environmental needs which gives companies an opportunity to develop sustainable products or services. The 'Ideas Compass' has been developed by the Danish Commerce and Companies Agency under the Ministry of Economic and Business Affairs with support from Region Zealand, the Nordic Innovation Centre and the insurance company TrygVesta.

To overcome the information barrier, the Portuguese Ministry of Economy, Innovation and Development organised several workshops on CSR in SMEs. The workshop 'CSR in the context of SME – Contribution to a responsible entrepreneurship' took place annually between 2008 and 2010. The workshops were organised by the Institute of Support of Small and Medium-sized Enterprises and Investment (IAPMEI), a specialised public agency within the Portuguese Ministry of Economy and Innovation, with the support of the European Commission, in order to provide SMEs with a forum to share experiences of CSR.

Finland aims to raise awareness of CSR and how to implement it in daily business operations among national SMEs. For this reason, the MEE, together with Finnish business organisations and civil society organisations, has arranged a regional seminar in December 2010 where SMEs as well as consultants of SMEs are to be informed about CSR and its benefits for smaller businesses. Several regional seminars are scheduled for 2011.

Guidelines designed to facilitate the application of CSR by SMEs have been drawn up by Poland, the Italian Region of Tuscany and the United Kingdom [...].

In 2008 the Polish Ministry of Economy commissioned a CSR guide titled 'Sustainable business, a guide for small and medium-sized enterprises'. The guide provides information on available tools and practices in the area of CSR which can contribute to a competitive advantage for SMEs. Since Polish SME managers actively contributed to the guide, the document delivers a practical approach to CSR. The guide promotes a systemic approach to management in areas of social responsibility, for example by providing information about the requirements of ISO 26000.<sup>12</sup>

In the Italian Region of Tuscany, guidelines for sustainability reporting of SMEs were developed in 2010 by 'Fabbrica Ethica', which is a political initiative launched in 2001 by the regional government of Tuscany with the aim of steering regional economic development towards social and environmental sustainability. The guidelines are addressed to SMEs as a first approach to comprehensive sustainability reporting. Based on the Global Reporting Initiative's G3 Guidelines, they were designed in cooperation with regional stakeholders to meet the reporting requirements of Tuscan SMEs. Additionally, the guidelines were tested on six SMEs to assure their practicability and suitability.<sup>13</sup>

In 2009 the British Department for Environment, Food and Rural Affairs (Defra), in partnership with the Department for Energy and Climate Change, published the 'Small Business User Guide: Guidance on how to measure and report your greenhouse gas emissions'. In a step-by-step process, the guidance document explains how SMEs can measure and report their greenhouse gas emissions.<sup>14</sup>

Given that the EU has emphasised the importance of sustainable production technologies for an energy- and resource-efficient economy through its 'Sustainable Consumption and Production and Sustainable Industrial Policy' Action Plan', Poland's initiative revolving around sustainable production and SMEs is particularly valuable (see box 5.3).

### Box 5.3

#### **Good Practice: Poland's research project 'Sustainable production models in the activity of SMEs'**

The Polish Agency for Enterprise Development is currently implementing a research project, titled 'Sustainable production models in the activity of SMEs - proposal of systemic solutions supporting the implementation of sustainable production models in SMEs'. The aim of the project is to develop recommendations and proposals with regard to potential legislative and institutional instruments to spur the implementation of sustainable production patterns in SMEs. The project has been launched against the background of growing pressure from consumers and public administration bodies on entrepreneurs to meet environmental

<sup>12</sup> ISO 26 000 is a voluntary guidance standard on social responsibility which is scheduled to be published in 2010.

<sup>13</sup> The G3 Guidelines are the cornerstone of the GRI Sustainability Reporting Framework.

<sup>14</sup> <http://www.defra.gov.uk/environment/business/reporting/pdf/ghg-small-business-user-guide.pdf>

requirements. The project will comprise qualitative and quantitative research on the implementation of sustainable production patterns by SMEs and the analysis of case studies. The research results will be presented in a report which will constitute the basis for a debate on the introduction of legislative changes.

#### 5.4.4 Partnering instruments

SMEs often face similar challenges with regard to the implementation of CSR, such as employee and community involvement or financing research and development measures to launch innovative products and processes that benefit the environment. Addressing these issues through partnering initiatives can help reduce costs of action and lead to improvements that initiatives aimed at individual SMEs cannot achieve.

##### Box 5.4

##### Good Practice: International 'SPIN' project

Several Member States (Denmark, Estonia, Finland, Germany, Lithuania, Poland and Sweden) partner in the project 'Sustainable Production through Innovation in Small and Medium sized Enterprises in the Baltic Sea Region' (SPIN)<sup>15</sup>, which is subsidised within the framework of the European Regional Development Fund (ERDF). The aim of the project is the promotion of innovative solutions for sustainable development, including eco-innovation, environmental technologies and CSR. CSR in the context of innovation is approached from the perspective of demand and supply, since many SMEs do not have sufficient access to new environmental technologies, whereas other SMEs that develop new environmental technologies and innovative managerial solutions cannot find profitable retail markets.

The activities undertaken by the project partners focus on:

1. identifying and meeting the needs of SMEs by way of overcoming the mismatch between the demand for and the supply of innovations for sustainable development;
2. developing and testing tools and instruments streamlining the implementation of innovations for sustainable development within SMEs;
3. identifying and testing appropriate incentives for SMEs to introduce innovation for sustainable development; and

<sup>15</sup> SPIN is a 3 million euro project supported by the Baltic Sea Region Programme 2007–2013 of the European Union. SPIN brings together some of the most important institutions for eco-innovation in the Baltic Sea Region, and is supported by numerous national governments, sector associations, research bodies and transnational NGOs.

4. ensuring cohesion in creating an international framework within the scope of the promotion of innovation for sustainable development among SMEs in the countries of the Baltic Sea region.

Several partnership initiatives have been launched in Portugal in recent years to facilitate SMEs engagement in CSR. For example, a partnership initiative between the Ministry of Economy, Innovation and Development and several business organisations<sup>16</sup> was launched in 2008 to disseminate the 'Methodological guide to the Implementation of Social Responsibility Practices'. The objective of the partnership is to provide SMEs with practical examples on the implementation of CSR; such as how to motivate employees to contribute to responsible business practices.

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### 5.4.5 Hybrid instruments

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A common explanation for why SMEs do not commit to CSR is the lack of guidance on ways to approach CSR and to reap benefits from strategically embedding CSR in their core business practices.

Multinational guidelines can play an important role in defining norms of desirable and acceptable behaviour of SMEs with regard to CSR. Since SMEs are the centrepiece of the Italian economy, supporting them in the implementation of CSR policies is one of the National Contact Points' (NCPs) core tasks. Responsible for disseminating the Guidelines for Multinational Enterprises of the Organisation for Economic Co-operation and Development (OECD), the Italian NCP identifies to what extent and how these guidelines could be applied to SMEs and how to support them. This is particularly important given that SMEs have fewer financial and staff resources than larger companies. To this end, the NCPs' support mainly rests upon three pillars: research activities, information and training activities, and the offer to join networks.

From 2007 to 2009 around 60 seminars focusing on CSR and the OECD Guidelines for export-oriented SME clusters (Italian 'distretti') were held in the Veneto, Lombardy, Emilia Romagna, Lazio, Abruzzo, Umbria, Marche and Liguria regions.

In 2010, the Italian NCP, in the form of the Ministry of Economic Development, presented a position paper on the OECD Guidelines, in which it emphasised the importance of promoting the Guidelines among SMEs, given the role they play in many countries' production systems and their growing relevance in the global supply chain.

<sup>16</sup> Participating business organisations were the CTCV (Technological Center of Ceramics and Glass Industries) as coordinator, IAPMEI, DGAE (Directorate General for Economic Activities), IEBA (Center of Enterprise Initiatives Beira-Aguieira), PRIMUS MGV (Promotion and Regional Development) AMP (Regional Agency for Development of the Metropolitan Area of the Port), CEC (Enterprise Council Center), CCIC (Chamber of Commerce and Industry of Center) and RECET (Association of the Technological Centers of Portugal).

LUISS Guido Carli University in Rome carried out in 2009 a survey commissioned by the Italian NCP for the OECD Guidelines for Multinational Enterprises, titled 'Corporate Social Responsibility within the framework of the OECD Guidelines for Multinational Enterprises: focus on SMEs'. It investigated SMEs' practices on the adoption, management and measurement of CSR. The survey also assessed the added value of CSR activities for SMEs and obstacles to be overcome. In order to analyse how CSR adds value for SMEs, the Italian NCP commissioned two research projects from LUISS Guido Carli and from Bocconi University in 2010. The aim was to explore the benefits that can be generated for SMEs when implementing CSR within enterprises' networks (such as clusters) and in value chains.

[Additionally, in order to promote CSR approaches among SMEs located in southern Italy, the NCP commissioned in 2010 a project from the Istituto Guglielmo Tagliacarne (a foundation of the Italian Union of the Chambers of Commerce) aimed at encouraging transparency and convergence of CSR practices and tools in the region. The project is aimed at responding to the needs of SMEs. It is addressed to different stakeholders such as associations, trade unions, chambers of commerce, consultants, banks and consumer movements, so that these actors can spread CSR among SMEs and align management solutions with principles of social responsibility and sustainable development.]

Creating or identifying the 'business case' for SME engagement in CSR is a key challenge for policymakers and business managers alike. CSR as a driver of innovation is frequently seen as making a convincing business case for SME engagement in CSR.

#### Box 5.5

##### Good Practice: International cooperation 'ERIK ACTION'

The regional government of Tuscany in Italy partnered with ten European regions<sup>17</sup> in the 'ERIK ACTION' project, an Interregional Cooperation Programme financed by the ERDF. The project, which ran from July 2008 until June 2010, aimed at improving the effectiveness of regional development policies on innovation and, specifically, on upgrading the innovatory capacity of existing enterprises with regard to topics such as CSR and sustainability. All partners identified innovation as a key priority in regional development and confirmed the importance of the project theme in their current environment. The project resulted in the development of action plans for the exchange of good practice among the partners. The project focused on inter-regional cooperation and sought to establish a sharing process whereby all parties involved communicated their experiences on relevant innovation topics; for example, parties had the opportunity to share experiences on how SMEs can be supported in CSR processes.

<sup>17</sup> Lower Austrian Government, Department of Economic Affairs, Tourism and Technology (Austria), Emilia Romagna Region, Department for Industry (Italy), Alentejo Regional Development Agency (Portugal), Agency for Innovation and Development of Andalusia (Spain), Banská Bystrica Self governing Region, Slovakia, Bretagne Innovation (France), Flemish Government, Agency for Economy (Belgium), The South-East Regional Development Agency (Romania), LTC AB (Sweden) and University of West Macedonia, Research Committee (Greece).

Tuscany shared its experiences with its CSR programme, 'Fabrica Ethica'. Through various activities such as covering a share of SA8000<sup>18</sup> and environmental certification costs for industrial SMEs or providing information to SMEs related to CSR, 'Fabrica Ethica' helps focus SMEs' activities on CSR.

In June 2010 the Pomerania Development Agency, in cooperation with partner organisations from Poland and Sweden, began to implement the project 'Responsible Enterprise' (RespEn), targeted to SMEs in the Pomorskie province in Poland and in the Swedish Kalmar region. The key objective of the RespEn project is to improve the competitiveness of micro companies and SMEs in the southern Baltic region through the implementation of a CSR strategy. The project offers enterprises the opportunity to participate in workshops, study visits and corporate business meetings, thus enabling Polish and Swedish companies to become acquainted with CSR principles, in particular with regard to initiating international commercial cooperation. [...]

Because of their size, SMEs often lack the requisite financial and human resources to approach CSR. In order to overcome these barriers, the regional government of Bavaria, Germany, has implemented the 'Environmental Pact' ('Umweltpakt') to support SMEs by easing their administrative burden and providing practical information about relevant CSR measures. The 'Environmental Pact' is based on the principles of cooperation between the state and business, voluntary action and individual responsibility. The objective of the initiative is to encourage as many companies as possible to implement corporate environmental protection measures. Many projects focus on SMEs; for example, information and competence centres offer practical advice on implementing the Eco-Management and Audit Scheme (EMAS). Additionally, manuals on environmental protection measures have been developed for several industrial sectors in cooperation with companies. Proposed measures guide SMEs on how to reduce their environmental impacts and costs simultaneously. Furthermore, financial assistance is provided to companies that plan to implement an environmental management system. More than 3,500 firms in Bavaria are currently involved in the 'Umweltpakt' and practise environmental protection, for example by increasingly using recycled products, by employing alternative sources of energy, or by taking steps to reduce carbon dioxide emissions. The 'Environmental Pact' was initiated in 1995 and enacted initially for a term of five years. Since then the Bavarian State Government and Bavarian businesses have signed two new agreements. The second agreement for a term of five years was signed in 2010.

The role of SMEs in CSR is outlined by several Member States in policy documents that define their general approach to CSR. Belgium, Germany [...] have emphasised the importance of CSR in SMEs in their CSR action plans. Germany's action plan of 2010 outlines a set of planned initiatives with regard to CSR and SMEs that focus on advising SMEs on suitable CSR approaches, supporting SMEs financially and promoting the cooperation between larger companies and SMEs that are part of their supply chain. Belgium's action

<sup>18</sup> SA8000 is a workplace standard against with which companies and factories measure their performance.

plan on CSR highlights the role of social economy enterprises and sets the goal of financially supporting these enterprises. [...]

In 2008, the Finnish MEE published the 'Development Strategy of CSR for SMEs'. The objective of the strategy is to enhance the competitiveness of SMEs by promoting responsible production. Additionally, it aims to encourage SMEs to integrate CSR into their managing approach, strategic planning and daily business operations by providing information on tools and good-practice examples of CSR 'front-runner' SMEs. Additional objectives are to integrate CSR topics into company training programmes and to include CSR criteria in decisions about financial support for SMEs (e.g. credits, investments).

Social economy enterprises have embedded one of the ideas of CSR, namely, the promotion of the public interest, in their corporate strategies. Portugal specifically focuses on the social economy in two policy initiatives. In 2010, the Portuguese Minister's Council approved the 'Support Programme for the Development of Social Economy' (PADES). PADES is a set of stimulus measures that promote the development of the social economy, including resources to promote micro-credit programmes and measures to stimulate employment and entrepreneurship of people with difficulties to access to work market. Also in 2010, the Minister's Council created the National Council for Social Economy, a consultation agency of the Government to develop public policy designed to promote and develop the social economy in Portugal.

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## **5.5 Conclusion and upcoming initiatives**

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### **5.5.1 General conclusions**

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Most SMEs have a proven track record in responsible business practices such as community involvement or employee support. However, these companies used to see CSR as 'common sense' or simply 'the right thing to do' rather than a topic they needed to address strategically. Given that SMEs often face a lack of knowledge about the strategic implementation of CSR in their core business, policy initiatives predominantly focus on practical informational initiatives to guide SMEs. Likewise, informational and hybrid initiatives focus on how SMEs can unlock the 'business case', which is not yet always clear to them. Furthermore, because of their size SMEs are not always able to allocate a sufficient amount of financial and human resources to CSR activities. As a result, EU and Member State policies have been launched to assist SMEs financially or through the establishment of support institutions. [...]

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### **5.5.2 Upcoming initiatives**

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Given that SMEs are the backbone of many Member States' economies, various initiatives are currently being planned or carried out.

As part of its CSR action plan, Germany will launch several policy initiatives aimed at CSR. For example, the German government envisages an advisory and training programme for SMEs that should enable SMEs to approach CSR in a practical and purposeful manner. The German government also proposes to establish a central help desk for SMEs on CSR issues. As well, an E-Learning approach towards CSR for SMEs and events that promote the exchange of information between SMEs and larger companies will be launched.

Additionally, the German government plans to launch a programme to support and improve SMEs' CSR activities. The programme will be composed of advisory and information services such as instruction on methods companies can use to evaluate the current status and potential of their CSR efforts. The services will also include assistance in the form of coaching and mentoring programmes in which enterprises that already have experience of CSR practices support companies less experienced in CSR.

Furthermore, the government will initiate regional and national events and roundtables which promote the exchange of experience between larger companies and SMEs. The aim of the events is to spur mutual learning that fosters CSR both in SMEs and larger companies.

In order to provide advice and assistance to SMEs which are interested in engaging in developing countries, existing instruments of external economic promotion and development policy will be better coordinated.

Germany also plans to assist micro- and social economy enterprises that contribute to achieving social and environment objectives by setting up a micro-credit fund.

In March 2010 the Portuguese Ministry of Industry, Tourism and Trade invited organisations to bid for the 'CSR-SME Initiative'. The initiative aims to raise SMEs' awareness of the importance of incorporating CSR into their business practices, as well emphasising that SMEs can gain a competitive advantage when integrating CSR in a strategic manner. [...]

In 2010 Defra in the UK commissioned a project to determine the effectiveness of certified environmental management systems, such as EMAS, ISO 14001 and BS 8555, in delivering business and environmental benefits. Key outputs of the project will be the quantification of the environmental and financial savings achieved on an aggregated and individual company basis and the lessons learned about the barriers to and benefits of EMS implementation. This initiative aims to bring the concept of corporate social responsibility closer to SMEs in particular, and to raise their awareness of the importance of incorporating it into their business practices, as well as bringing them the competitive advantages derived from this integration when it is managed in a strategic fashion.

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## 6 Socially Responsible Investment

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### 6.1 Definition

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The modern roots of Socially Responsible Investment (SRI) can be traced to the United Kingdom (UK). It was there in the 1920s that the Methodist Church avoided financing companies which invested in the production of alcohol and gambling.

The idea of SRI is similar to the concept of Corporate Social Responsibility (CSR) and can thus be regarded as implementation of CSR in investment decisions. Sustainable investors consider the following issues in their investment decisions: social factors (e.g. human capital, community development), environmental factors (e.g. industrial pollution, global warming) and ethical factors (e.g. violation of human rights, child labour).

Currently, no universal definition of SRI exists. Eurosif, the European Social Investment Forum, combines different aspects in its definition of SRI as the following:

Socially Responsible Investment combines investors' financial objectives with their concerns about social, environmental, ethical (SEE) and corporate governance issues. SRI is an evolving movement and even the terminology is still very much in the evolving phase. Some SRI investors refer only to the SEE risks while others refer to ESG issues (Environmental, Social and Governance).

Eurosif thus believes that both SEE and ESG issues are relevant to SRI. Furthermore, SRI is based on a growing awareness among investors, companies and governments about the impact that these risks may have on long-term issues ranging from sustainable development to long-term corporate performance. This chapter on SRI is based on Eurosif's definition and sheds light on European Union (EU) and Member States' policy initiatives that aim to raise awareness and strengthen the development of SRI. Regarding the role of investors, the European market for SRI is growing through the increasing demand from institutional investors.

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### 6.2 The SRI market in Europe

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Europe represents the most dynamic region for SRI developments in the last years. According to the latest available data of Eurosif, total SRI assets under management in Europe reached €2.665 trillion in the end of 2007.<sup>19</sup> Over two years – from 2005 to 2007 – the compound annual growth rate of the SRI market amounted to 42 per cent. SRI assets represent in total 17.6 per cent of the asset management industry in Europe.

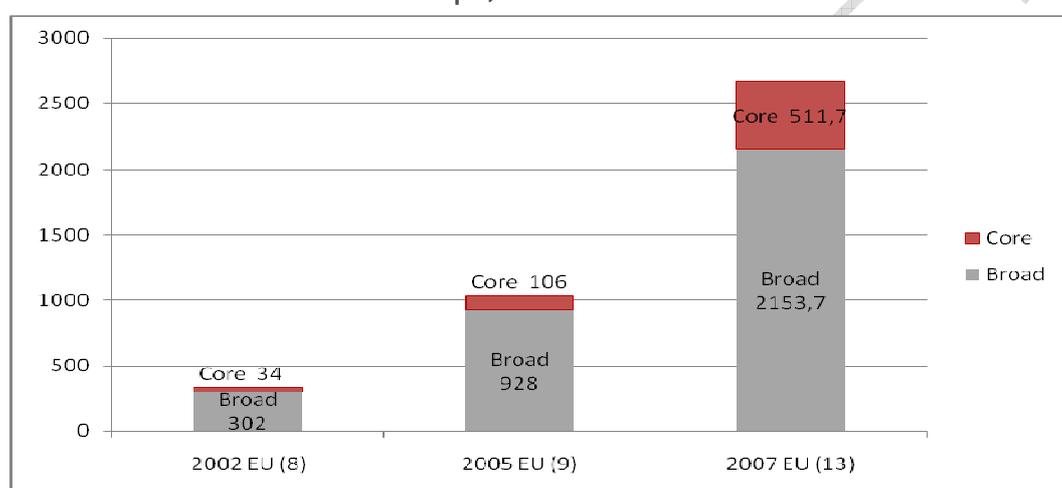
In general, national SRI markets in the EU Member States vary in terms of size and growth. Eurosif distinguishes between two segments of SRI: Broad SRI and Core SRI.

<sup>19</sup> SRI (2008): European SRI Study 2008. The next Eurosif European SRI Study is expected for autumn 2010.

Broad SRI is composed of the following strategies: simple screening<sup>20</sup> (including norms-based screening<sup>21</sup> for up to two negative criteria), engagement<sup>22</sup> and integration<sup>23</sup>. Like Core SRI these strategies can be combined, especially engagement and integration. Broad SRI investors are mostly large institutional investors and therefore experienced with large volumes of assets – often much larger than Core SRI. For this reason Broad SRI represents the ‘mainstreaming’ of SRI.

Core SRI is frequently described as the original form of SRI. The majority of the Core SRI investors are individuals and churches. It is composed of the following strategies: ethical exclusions<sup>24</sup>, positive screening<sup>25</sup> (including best-in-class<sup>26</sup> and SRI theme funds<sup>27</sup>) and the combination of ethical exclusion and positive screening. Among the various strategies for positive screening, SRI theme funds are the most developed in Germany while best-in-class strategies are extensively used in Denmark, Sweden, France and Belgium.

**Figure 2: Core and Broad SRI in Europe, 2002-2007**



Source: Eurosif European SR Survey 2008

<sup>20</sup> Simple screening is an approach in which specific criteria are used to exclude given sectors or companies from an investment fund based on their engagement in particular business activities (including for example weapons or tobacco production, animal testing, etc.).

<sup>21</sup> Norms-based screening is a form of negative screening based on companies' compliance with international standards and norms.

<sup>22</sup> Engagement refers to the strategy which aims at influencing company behaviour regarding social, ethical and environmental practices through long-term dialogue.

<sup>23</sup> Integration involves the explicit consideration of ESG risk factors in traditional financial analysis, whereby Corporate Governance risk is to be limited to the interaction of Governance and Social and Environmental issues.

<sup>24</sup> Ethical exclusions are made based on at least two negative criteria (i.e. the engagement in multiple negative business practises).

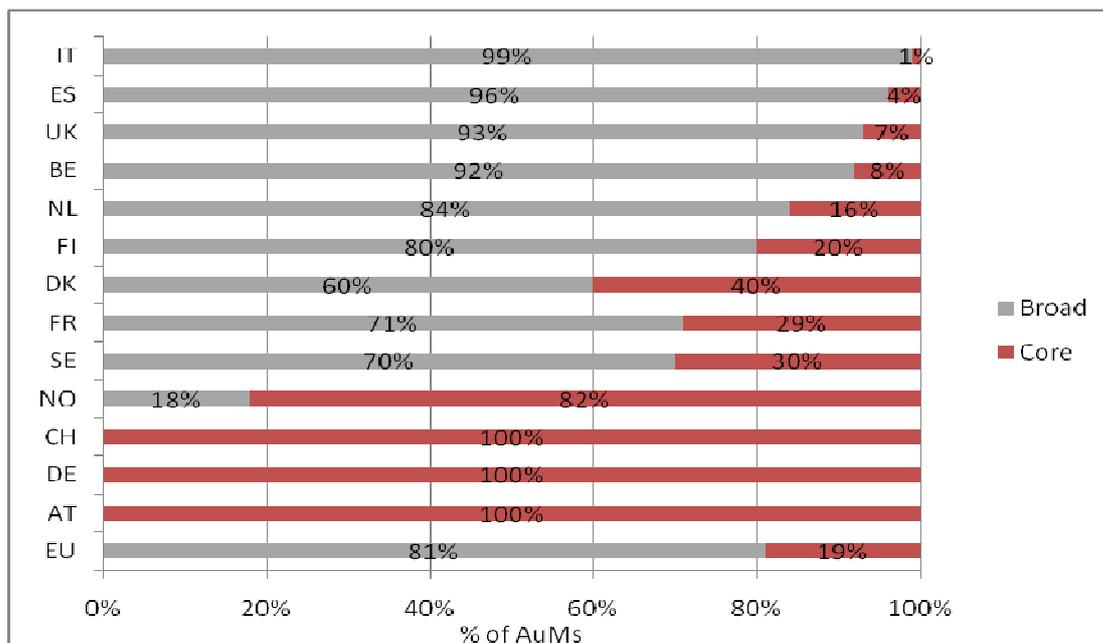
<sup>25</sup> Positive screening refers to the selection of investments based on positive performance on explicit ESG criteria (e.g. best-in-class or SRI theme funds).

<sup>26</sup> Best-in-class is a screening approach which identifies companies from various sectors with exemplary performance on ESG criteria to be included in a portfolio.

<sup>27</sup> Thematic funds focus on particular sectors or issues relating to SRI. SRI theme funds must make an explicit commitment to SRI and employ mechanisms for the consideration of ESG criteria in the composition of their funds.

The UK boasts the largest Broad SRI market, followed by the Netherlands and Belgium. Italy shows a remarkable increase in terms of market size. The difference between Core and Broad SRI varies widely from one country to the next, illustrating the various levels of 'mainstreaming' of the national SRI markets as well as the weight of institutional investors. At the European level, Core SRI represents 19 per cent and Broad SRI 81 per cent of the total SRI assets under management.

**Figure 3: Share of Core and Broad SRI in total SRI Assets under Management (AuMs) by country**



Source: Eurosif European SR Survey 2008

### 6.3 Public policies of the European Commission

The EU Commission uses various tools to promote SRI and aims to encourage national efforts on this topic. Thus the EU public policy instruments address diverse target groups such as financial experts, policy makers, businesses, non-governmental organisations (NGOs) and academic institutions.

Though the issue of SRI is not mentioned in the current communication on CSR, at least some aspects are addressed by European development policies within the renewed EU Sustainable Development Strategy. The strategy states that the European Investment Bank should consider sustainability issues in its investment decisions (European Council 2006).

In 2010 the European Commission launched a Europe-wide public debate on how to ensure adequate, sustainable and safe pensions as well as on how the EU can best support national efforts. The consultation will run until the end of November. Subsequently, the European Commission will analyse all responses and consider the best ideas for future actions addressing these issues at the EU level.

Furthermore, in 2010 the European Transparency Code will also be drafted in order to harmonise the response process across Europe and improve the visibility of the Code and the

funds' responses. This code aims to create more clarity on the principles and processes of SRI mutual funds; its development was financed by the European Commission. As of June 2010 there were about 60 signatories to the SRI Transparency Code, representing more than 350 SRI funds. In addition a logo specific to the Transparency Code was created which can be used by signatories once their responses to the Code have been reviewed by their respective national Social Investment Forum.

In the wake of the financial crisis and its consequences, the European Union and its Member States have the strong political will to prevent such a situation from happening again in the future. In June 2010 the European Commission published the Green Paper 'Corporate governance in financial institutions and remuneration policies.' This paper elaborates on the concept of corporate governance in financial institutions, deficiencies and weaknesses in corporate governance, initial responses as well as options for the future.

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## 6.4 Public initiatives in the EU Member States

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### 6.4.1 Legal instruments

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Pension funds are long-term orientated in their investment decisions; they are provided with a large amount of assets and could be a leading example for other market players in considering SRI in their investment decisions. As mentioned in the last Compendium, seven EU Member States currently have specific national SRI regulations in place that cover their pension systems: UK (2000), France (2001), Germany (2001), Sweden (2001), Belgium (2004), Austria (2005) and Italy (2004). In other Member States disclosure requirements on pension funds are still being discussed. In Spain for instance, a proposed law presented by the government in 2007 and pending approval by the Spanish Parliament would mandate the allocation of 10per cent of the Social Security Reserve Fund (worth €47 billion) to equities conforming to the principles of SRI.

Pension funds are not the only target group of legally binding agreements; small investors are also addressed. After financial scandals occurred in 2005/2006, the Italian Parliament passed [in year] a law to protect small investors. This act introduced several measures pushing for more transparency. One measure obliges financial institutions (banks, insurance agencies, asset managers, etc.) offering products labelled as 'ethical' or 'socially responsible' to provide further information on criteria, processes, resources and results to enable investors to evaluate the provider's claim.

With the Dublin Convention on Cluster Munitions<sup>28</sup>, various EU Member States forbid the financing, use, production and repairs of mines und cluster munitions, as in Belgium

<sup>28</sup> The Convention was adopted in Dublin by 107 states on 30 May 2008 and signed on 3 December of the same year. The Convention became binding international law for the State Parties when it entered into force on 1 August 2010.

(2007/2009), the UK (2010) and [...].The British government has already said it plans to work with the financial sector, non-governmental organizations and others on a voluntary code of conduct to prevent further indirect financing of such weapons.

**Box 6.1****Good Practice: Belgium's law against financing of weapons**

In March 2007 Belgium became the first country to publish a law forbidding the financing of the production, trade and use of anti-personnel mines and cluster munitions and with it a prohibition of financing any Belgian or foreign company that produces, uses, repairs, offers, sells, distributes, imports, exports or stocks such weapons. It also forbids granting any kind of credit, loan or bank guarantee to such companies. A similar law on depleted uranium weapons passed in June 2009. However, the government has not yet issued a decree applying the law to a specific list of prohibited companies. Therefore it appears that negative screening on weapons is not yet technically a legal requirement. The Belgian government asked research organisations to complete a minimum norm definition study; the basic proposition would be to take all international conventions signed by the government as basis for SRI products and create a blacklist of companies and countries. [The study may form the basis of a proposed law.]

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**6.4.2 Financial or economic instruments**

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In the last few years business models have been developed for the successful inclusion of a hitherto largely neglected population in corporate value chains. Thereby the concept of micro-finance often takes centre stage. In Germany the revision of the the Investment Act (latest modification: April 2010) allows the public distribution of micro-finance funds. It can therefore invest in micro-finance institutions that grant micro-loans to micro and small entrepreneurs in developing and emerging countries. Moreover, some micro loan funds have been set up in Finland as well. One of these is the WomenBank administrated by Finn Church Aid founded in 2007. The aim of WomenBank is to support women's entrepreneurship in developing countries. In this way, the well-being of the whole society improves sustainably.

Even in countries in Europe there were and are people who are largely excluded from banking services. The Program of Support for the Development of the Social Economy in Portugal, approved by the Minister's Council in March 2010, promotes micro-credits and measures to stimulate employment and entrepreneurship among populations that have difficulties accessing the labour market.

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**6.4.3 Informational instruments**

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Educational activities on SRI such as conferences, seminars or training courses primarily address an expert audience, in particular asset and fund managers, scientists and government representatives. The main issues of these activities focus on the integration of ESG criteria into investment decisions, possibilities for engagement on ESG disclosure and

corporate governance. The free online training 'Green and Ethical Investment' of UKSIF for instance, supported by the British Department of Environment, Food and Rural Affairs, addresses financial advisors and includes a test, upon completion of which advisers receive a certificate and access to further information services about green and ethical investment. In 2009 a seminar organised by the Polish Ministry of Economy aimed to take advantage of experiences made in the development of the SRI concept worldwide. The participants used such lessons to set priorities to be followed by the working group for responsible investments within the framework of the Group for Corporate Social Responsibility Issues in Poland. To raise awareness on effective engagement between investors and companies on CSR and ESG, disclosure was the objective of a conference in 2010 organised by the Ministry of Economic Affairs of the Netherlands and the Norwegian Embassy. Educational activities can thus pursue different objectives such as the qualification of financial experts, exchanging of experience and fostering of engagement.

Informational resources may take the form of specialised studies and reports or websites addressed to a wide target group extending from the general public to financial service providers. Such informational websites aim to facilitate communication on SRI, build up knowledge and awareness, give special product information and promote best practices on SRI - such as the first portal in Poland. Based on existing initiatives, studies and reports on behalf of governments aim to generate knowledge enabling companies and investors to consider ESG factors in their business and investment practices. For example, a German study on behalf of the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety examined how the greenhouse gas intensity of various financial investment products in the German market can be comparably calculated. Studies and reports are also actively used by governments to empower shareholders in their dialogue with companies on CSR, as the Danish example shows. The Danish Ministry of Economic Affairs commissioned a study on the relation between CSR and corporate governance. The study's authors propose that every company listed on the stock exchange with a balance sheet total of DKK 500 million should have a CSR policy, report annually on its CSR policy to provide basis for an informed dialogue with share- and other stakeholders and that the code of corporate governance be changed to this end.

Guidelines and standards are also used by governments to enable companies and investors to consider ESG issues in their investment decisions. Two initiatives in Austria and Poland include a focus on environmental issues as well as on principles on SRI. In January 2008 the Austrian Ministry of Agriculture, Forestry, Environment and Water Management published the guidelines of the Austrian Environmental Label for green funds. This label distinguishes mutual funds for the ethical, social and environmental alignment of their investment policies. The Austrian Consumer Information Association and various experts developed these guidelines on behalf of the Ministry, and included specific and transparent criteria. The Polish Financial Supervisory Authority in cooperation with different financial institutions and scientific experts also prepared 16 universal principles, the so-called 'Canon of Good Practices of the Financial Market'.

To raise awareness on SRI among different stakeholder groups, campaigns offer various possibilities in terms of the focus issues or target groups. In May 2008 the first informative campaign of the Warsaw Stock Exchange aimed to inform private investors about the nature of stock exchanges and mechanisms for investing in the capital market. In contrast, a

German campaign concentrated specifically on environmental aspects. The German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety organized the national campaign in January 2010 on 'Climate and Finance' in cooperation with a large number of German financial service providers. The French Sustainable Investment Forum also decided to launch a French National SRI week in October 2010 with the support of French Ministry for Sustainable Development.

**Box 6.2****Good Practice: Germany's campaign on 'Climate and Finance'**

The project aimed at raising awareness among consumers as well as financial service providers of climate-friendly financial services and strengthening their comprehension of relevant interrelations. The campaign furthermore served as a platform for its partners to present their climate-friendly products and dedication to climate protection to their customers.

Despite the financial crisis, the national campaign on 'Climate and Finance' aroused great interest among the German financial service providers. The kick-off event of the campaign was a conference with high-ranking participants including the Federal Minister for the Environment. In addition to extensive information materials and public relations activities, the partners of the campaign reached consumers through various activities and events and informed them about climate-friendly financial investments, credits, and provisions. Beyond that, a website, interactive short movie, trailer (shown in 850 postal offices) and travelling exhibition served as further ways to communicate the campaign's aims.

As mentioned in the introduction institutional investors are some of the major drivers in the financial market. In this context guidelines and standards also target institutional investors. One of the most important international initiatives in this area is the promotion of the United Nations Principles of Responsible Investments (UNPRI). Denmark's Action Plan for Corporate Social Responsibility for example propagates the PRI along with other international principles. In August 2010 the Danish Government prepares a guide to responsible investment (based on the UNPRI) aimed at Danish institutional investors. In Finland the Ministry of Employment and Economy published guidelines as well which include the UNPRI. Furthermore, it included information about ISO 26 000 and the Global Reporting Initiative G3 Guidelines. In the UK the so-called 'Stewardship Code' was published in July 2010. It aims to enhance the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance responsibilities by setting good practice on engagement with investee companies to which the Financial Reporting Council believes institutional investors should aspire.

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**6.4.4 Partnering instruments**

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Networks and partnerships on SRI appear to be implemented less frequently than other policies; only two partnering initiatives were identifiable on the national level. One partnering

initiative in Germany focuses on environmental aspects. In December 2009 the Federal Environment Minister announced a 'dialogue on climate change in economics and politics,' which will be implemented to discuss technological possibilities for reducing greenhouse gas emissions and the conditions necessary for that purpose. Until the end of this year the Federal Environment Ministry and German businesses will discuss four main topics, including climate protection through sustainable investments. A working group of 20-25 experts will deal with climate protection barriers of the current regulatory framework, reflect on incentives for broader markets and consider the establishment of benchmarks for Carbon Accounting for Investments.

In the Netherlands, the Cabinet Vision on CSR for 2008-2011 gives particular attention to market parties taking an interest in socially responsible investments by enhancing corporate governance and driving the adoption of CSR by companies. It also targets other stakeholders playing a key role in stimulating effective dialogue with companies on CSR.

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#### **6.4.5 Hybrid instruments**

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To foster SRI, governments also combined different instruments – in particular partnering instruments with financial or informational instruments. Two initiatives in Germany and UK interlinking financial and partnering instruments aim to encourage the reduction of CO<sub>2</sub> emissions and to promote low carbon energy production. The German global fund on climate protection founded in June 2010, promotes small and medium sized enterprises and private households in developing and emerging countries that invest in energy efficiency and renewable energy. In total the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety as well as the KfW Development Bank allocate more than 100 million US dollars for the purchases of the fund. In addition, the government expects an increase to over 500 million US dollars in the next five years with the involvement of the private sector. The creation of a Green Investment Bank in the UK – being one main element of the new Energy Bill – also aims to support investments in low carbon projects to transform the economy. It will control two billion pounds worth of equity, half of which will come from asset sales with the rest matched by private investment. Thus the initiatives in both Germany and the UK focus on financial remedies to environmental issues.

Three national CSR institutions in Spain and Poland, as well as a roundtable in Denmark could also be classified as hybrid instruments. In these cases the governments combine partnering instruments with informational instruments. As part of the partnership they support individual initiatives: for instance definition of SRI, analysis and best practice cases (national and international), awareness raising campaigns, studies on profitability and SRI, and the development of skills for reporting and promoting SRI.

The Working Group on Socially Responsible Investment of the State Council on Corporate Social Responsibility in Spain deals with a variety of subjects [...] related to SRI. A document presenting conclusions and recommendations is expected to be approved by the Plenary Session of the State Council on Corporate Social Responsibility and become available in the last quarter of 2010.

In Poland a working group for responsible investment also exists, operating within the framework of Group for Corporate Social Responsibility Issues. It deals with discussions on

investment projects management, taking into account the ESG factors. The working group consists of 2 sub-teams dealing with responsible investments from the perspective of portfolio and infrastructural investments.

In 2008, in collaboration with Princeton University, the Danish Commerce and Companies Agency (DCCA) held a roundtable conference entitled 'The Promise of Socially Responsible Investing' which aimed at establishing an agenda for research in responsible investment. Following the Princeton roundtable, the DCCA initiated a partnership with the UNPRI to promote a research agenda on the integration of responsible investment into main stream investment strategies (via the UNPRI Academic Network).

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## **6.5 Conclusions and upcoming initiatives**

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### **6.5.1 General conclusions**

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Although awareness for SRI has continued to increase in the European Union over the last years, the number of recent initiatives is limited. For this reason it is not possible to name a standard set of governmental policy instruments, yet certain trends on SRI could be identified. [...]

Altogether 27 initiatives in twelve Member States could be identified. Twelve of these initiatives could be classified as informational instruments, two of them as partnering, two as financial, five as legal and six initiatives as hybrid. [...]

The role of National Pension Funds Regulation adopting SRI cannot be overestimated; it set the tone for all other pension funds to act accordingly. [...]

Current SRI approaches by national governments focus on climate change and investor reporting. [...]

Major challenges for SRI in Europe and the Member States include the mainstreaming of SRI, scepticism of the importance of SRI, the adoption of tax incentives, training of financial advisors (with Britain as the model), guidance on best practice institutional investors in the EU and the expansion of roundtables. [...]

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### **6.5.2 Upcoming initiatives**

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[...]

## 7 CSR and education

### 7.1 Definition

CSR in education means systematically integrating Corporate Social Responsibility (CSR) issues into curricula and teaching and learning processes.<sup>29</sup> However, this may be a difficult task because CSR is an abstract concept that conveys a wide variety of meanings. It is, nevertheless, widely recognised by CSR scholars and practitioners alike that awareness raising for CSR and imparting knowledge in this field need to be integral parts of education if CSR is to be applied as a common business practice.

Generally, CSR can be understood as a business practice that promotes sustainable development. It revolves around business's contribution to environmental, social and financial sustainability. Against this background, educational initiatives that do not directly focus on CSR topics such as Climate Change Education and Education for Sustainable development can still make a valuable contribution to carrying forward CSR in education by promoting understanding of business responsibility towards sustainable development, thus strengthening the capacity of expert stakeholders in the field of CSR.

Education initiatives can be addressed at different levels of education:

- *primary education* understood as the first five to seven years of formal, structured education;
- *secondary education* understood as middle schools, gymnasiums, lyceums or high schools;
- *higher education* understood as undergraduate and postgraduate education in colleges and universities;
- *vocational education* understood as technical education which prepares people for careers that are based in manual or practical activities; and
- other education that focuses on lifelong learning and may include executive or management education in universities and professional adult education and training aimed at employees.

For CSR to become a mainstream business practice, educational initiatives may target different audiences. For example, initiatives may be directed at pupils, students, entrepreneurs, company managers, employees or civil servants. Likewise, intermediaries such as teachers or trainers may be addressed by public policy initiatives in order to ensure that CSR issues are continuously and actively integrated into teaching and training activities. The aim of education initiatives on CSR is to promote understanding of CSR and to help individuals (such as pupils, students or executives) to make informed choices about

<sup>29</sup> The Compendium does not include public policy initiatives focusing on academic activities outside the curriculum, such as research, knowledge exchange and extracurricular sustainability-focused activities.

business's contribution to sustainable development. Individuals may play roles as consumers who indirectly affect business's ways of producing on the basis of their informed choices. Additionally, individuals may play roles as (future) entrepreneurs or company managers who are responsible for sustainable business practice or as civil servants who are responsible for developing and implementing public CSR policies in government agencies.

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## **7.2 Development of the integration of CSR in education**

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The policy of integrating CSR in education as an essential element has matured, both internationally and in the European Union (EU). However, CSR has yet to become a mainstream topic in education.

Internationally, several initiatives have been launched that envisage a role in education for sustainability and responsible business practice. In 2002 the United Nations (UN) Decade of Education for Sustainable Development (2005–2014) was adopted. Its objective is to integrate the principles, values and practices of sustainable development into all aspects of education and learning. The United Nations Principles for Responsible Management Education (UNPRME), a UN-backed global initiative developed to promote CSR and sustainability in business education, were adopted in 2007. They seek to achieve continuous improvement among institutions of management education in developing a new generation of business leaders who bring CSR and sustainability into common business practice. Currently, more than 320 organisations, among them many European business schools, have signed up to the initiative. In 2009 Harvard University Business School drafted a statement of principles titled 'The MBA Oath: Setting a Higher Standard for Business Leaders'. The oath, which received considerable attention internationally, is a voluntary pledge on the part of current and graduating masters in business administration (MBAs) to 'create value responsibly and ethically'.

Focusing on higher education, the United Nations Development Programme, with financial support from the European Social Fund, is also promoting CSR in education in the EU. It has launched a project in Lithuania, aimed at creating access to education about CSR in order to improve the understanding of the concept of CSR and its key elements particularly among (future) business leaders. As part of this project, CSR modules for higher education are to be developed.

In the Communication of the European Commission on CSR from 2006 (COM(2006) 136 final), 'education' is identified as one of eight elements necessary to further promote CSR. Education on CSR is seen as an important contribution to Europe's future competitiveness and sustainability. The integration of CSR and sustainable development-related topics in traditional courses, in the curricula of graduate students and future managers, in executive education and in other educational institutions is encouraged. However, in the EU the public policy approach is still rather fragmented [...]. Policy initiatives are largely private-led; alliances of companies, business schools and other institutions, accreditation bodies (for business schools), faculty- and university-level forces, as well as student associations are the main drivers of the introduction, development and implementation of CSR education.

A 2008 survey conducted by the European Academy of Business in Society, the European Foundation for Management Development and Nottingham University found a general

increase in CSR coursework and a maturing of CSR as a field of study in Europe. However, the study also revealed that in some cases CSR coursework in European institutions of higher education also declined, such as dedicated CSR programmes in MBAs and Executive Education.

Above all, the availability of business ethics and CSR courses in the economic and management field of higher education is enhanced in the EU. After analysing the global financial crisis of recent years and corporate scandals such as the collapse of Enron Corporation as a result of corporate fraud in 2001, several observers concluded that – among other things – university business schools with their narrow focus on profit were to blame for the financial meltdown and corporate malpractices. Not surprisingly, university business schools in particular were urged to rethink their approach towards management education.

Furthermore, with mounting scientific evidence of climate change and its likely adverse impacts on humans and ecosystems, education initiatives increasingly integrate education on climate change and its causes particularly into curricula in primary and secondary education.

[...]

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### **7.3 Public policies of the European Commission**

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Tackling climate change is one of the key challenges for the EU. In 2006, the European Commission launched the ‘You control climate change’ campaign that aims to raise awareness about climate change and what individuals, mainly in their role as consumers, can do to help reduce greenhouse gas (GHG) emissions. The campaign website is constantly being updated and includes a section dedicated to pupils and teachers. For example, presentations and brochures for both pupils and teachers are available that explain how consumption and production patterns can cause climate change and what measures individuals can take to help protect the climate.

Additionally, in 2009 the European Commission published the teacher’s guide titled ‘Your World, Your Business’ to give teachers ideas about how they could introduce to their students the concept of an entrepreneur who takes social and environmental concerns into consideration. The guide and accompanying videos were prepared by the European Commission in cooperation with the not-for-profit association Junior Achievement – Young Enterprise. It is available in 24 different languages and is being distributed to thousands of schools across Europe. The targeted audience is pupils aged 16–9 and their teachers.

In 2009 the Council adopted the ‘Strategic framework for European cooperation in education and training, which emphasises the key role of education in achieving a prosperous, fair and environmentally sustainable future for Europe. High-quality pre-primary, primary, secondary and higher education and training are important elements of the strategic framework. Additionally, the framework highlights the importance of lifelong learning, since people’s skills must be constantly renewed to enable them to meet new challenges.

## 7.4 Public policies in the EU Member States

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### 7.4.1 Legal instruments

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Legal initiatives may be valuable instruments for integrating principles related to CSR into education systems.

In the Polish education system, spreading knowledge about the principles of sustainable development was included in the Education System act as well as in a regulation on core curricula.

The amended Education System Act [of 2003?] included this provision: 'The education system shall ensure in particular popularisation of the principles of sustainable development among children and youth and building attitudes facilitating its implementation at the local, national and global level.' [...]

Also, the Regulation of 23 December 2008 of the Polish Ministry of Education on the core curriculum for pre-school education and on general education in particular types of schools contains numerous provisions referring to sustainable development and sustainable production and consumption. [Further legal initiatives are to be found in Spain (see box 7.1) [...].

#### Box 7.1

##### Good Practice: Spain's motion on CSR education

In Spain, the motion passed by the Congress of Deputies on CSR (Point 9) states: 'Promote cultural, educational and training expansion of CSR, and introduce sustainable development and CSR as content at the different levels of education.' [...]

In Finland, sustainability issues, particularly environmental questions, are included in curricula in schools. These curricula are coordinated by the Ministry of Education. The inclusion is based on [...]

### 7.4.2 Economic and financial instruments

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Instead of raising awareness of CSR issues directly through informational initiatives, public policy may focus on providing financial support to educational institutions.

A regional office in Tuscany, Italy, financially supports 21 Tuscan schools from almost all provinces that will develop territorial projects in the field of CSR and build partnerships with local stakeholders. Each project received a maximum of €10,000. The projects will be carried out between September 2010 and May 2011, and are focused on CSR issues such as:

environment, fair trade, and health. The projects' municipalities play a fundamental role in involving civil society in the implementation of the education projects.

**Box 7.2****Good Practice: Germany's National Climate Initiative**

Under the banner of the 'National Climate Initiative', launched in 2008 by the German Ministry for the Environment with the goal of lowering CO<sub>2</sub> levels, several educational campaigns have been funded to support the inclusion of CSR issues in school curricula. Activities include provision of teaching aids and materials, teacher training and the implementation of model projects. For example, with its 'Action on Climate!' programme, climate action days in 1,000 schools are funded. [...]

In order to promote the inclusion of sustainability in economic sciences, the German Federal Ministry of Education and Research launched in 2007 the 'Economics for Sustainability' ('Wirtschaftswissenschaften für Nachhaltigkeit', WiN) initiative. It finances 15 research projects that aim to develop concrete solutions to how economics can contribute to meeting global challenges such as ecological modernisation or socio-demographic change. Strategies for action are developed in cooperation with (inter alia) practitioners from industry and trade. The funding programme is part of the 'Research for Sustainability' initiative of the Federal Ministry of Education and Research.

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**7.4.3 Informational instruments**

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Educational institutions such as primary and secondary schools and universities hold great potential for raising awareness of the importance of promoting CSR and sustainability issues such as climate protection. Informational initiatives can take the form of education material such as textbooks, workshops or websites.

German ministries have launched several initiatives in recent years using various instruments to raise awareness of environmental sustainability.

'Action on Climate!' is an element of the programme 'Climate protection in schools and educational institutions' ('Klimaschutz an Schulen und Bildungseinrichtungen'), launched by the German Ministry for the Environment in 2008 as part of the 'National Climate Initiative'. The aim of 'Action on Climate!', which is operated by the non-profit organisation BildungsCent e.V., is to support change processes in the education sector and to improve students' awareness of climate issues. For example, as part of 'Action on Climate!' the internet platform 'klimawink' has been launched as the first social bookmark community in the area of environmental education. The website has been developed for teachers by providing information about educational opportunities with regard to climate protection.

The German Federal Ministry of Food, Agriculture and Consumer, in cooperation with the Youth and Education Foundation (Stiftung Jugend und Bildung), has held a workshop on how to integrate CSR into school curricula. Fifteen teachers from Baden-Wuerttemberg, Bavaria,

Berlin, Hesse and North Rhine Westphalia participated in the workshop, which took place in March 2010 on the 'didacta'<sup>30</sup> fair in Cologne. The results of the workshops will be an integral part of an upcoming education package [...] for schools.

Also presented at the 'didacta' fair was education material on the topic of renewable resources aimed at primary and secondary education. Developed by the Federal Ministry of Food, Agriculture and Consumer protection in partnership with the Agency for Renewable Resources, this material discusses the role of renewable resources for climate protection and sustainable development; it is applicable across disciplines and can be used in subjects such as chemistry, biology, business and politics.

[Over recent years [between 2007-2010?], officials of the Finnish MEE have visited universities to give lectures about CSR in order to raise awareness of this topic. Additionally, they have guided some postgraduate students writing dissertations or undertaking studies on CSR.]

Achieving sustainable production and consumption patterns, through fostering resource-efficient and eco-friendly production processes and products and raising consumer awareness, is one of the core key objectives of the EU.<sup>31</sup> In order to raise consumer awareness on these matters, the Ministry of the Environment of the Czech Republic launched the educational programme '(Don't) Buy It' in [...]year] to explain to primary and secondary school children the issue of sustainable production and consumption. The aim of the programme is to help pupils and students understand the information they find on the packaging of various products. By using practical examples and information material, the activities in the programme focus in particular on sustainable consumption, on household shopping and use of products, on means of exploiting natural resources and on the life cycle of products. A downloadable educational kit aims to explain the issues of sustainable production and consumption to schoolchildren in an enjoyable format.

In October 2009 the Polish Ministry of the Environment hosted an international conference dedicated to education for sustainable development. The participants discussed how sustainable production and consumption issues could be integrated into education. [...]

In addition to environmental issues, Member States' policy initiatives include social issues such as health and safety, labour rights and financial sustainability, or cover all aspects of CSR.

In the Netherlands, in view of the growing number of children and teenagers getting into debt during the financial crisis because of a lack of awareness and knowledge of how to balance income with foreseeable expenditures, a group of companies in the financial sector cooperated with the Ministry of Social Affairs, tax authorities and the Institute for Budget Planning to design a website and related school materials with clear information, specially targeted to this group of young people. [...]

<sup>30</sup> 'didacta' is the largest trade fair for teachers from all education sectors within Europe.

<sup>31</sup> More information on activities of the EU Commission is available in the 'Sustainable Consumption and Production and Sustainable Industrial Policy Action Plan'.

The Italian think tank I-CSR, which is active in training initiatives on CSR, has developed and carried out the 'CSR in schools' project over recent years. Implemented in cooperation with the Veneto Centre for Productivity, the G. Rumor Foundation and the Chamber of Commerce of Vicenza, the project focuses on providing pupils from secondary schools in the Province of Vicenza with basic knowledge on CSR elements and instruments. The ongoing project 'CSR in schools', which reached its fifth year of implementation in 2010, also involves local SMEs, thereby providing pupils with information on SMEs' CSR policies on the basis of practical case studies.

Instead of focusing on pupils or students, recent Member States' initiatives focus on the development of teachers and trainers who act as crucial intermediaries. The 'Fabrica Ethica Project' in Italy provides an example of such initiatives (see box 7.3).

### Box 7.3

#### Good Practice: Italy's Fabrica Ethica Project

The regional government of Tuscany in Italy has launched an educational initiative in secondary schools and universities in recognition of the fact that pupils and students are future consumers, employees and entrepreneurs.

From 2005 to 2010 several activities were carried out focusing particularly on the training and development of teachers. The activities were part of the 'Fabrica Ethica Project', whose aim is to steer regional economic development towards social and environmental sustainability. Teachers were invited to attend seminars, workshops and conventions in order to discuss how CSR topics could be integrated into curricula.

Additionally, in 2010 all Tuscan secondary schools have been invited to host classroom meetings where teachers and pupils, with the support of external experts and SMEs representatives, talk about a broad set of CSR issues such as occupational health and safety, labour rights, human rights, CSR management system standards, sustainability reporting and consumer concerns. Carried out with the collaboration of a non-profit association, which moderated the meetings, almost 1300 students and 35 teachers have been actively involved in these meetings in 64 schools. Many of the 35 teachers had participated in training sessions of the 'Fabrica Ethica Project' since 2005, demonstrating their interest in including CSR issues in their everyday teaching activities.

In order to promote CSR in adult education, the Italian National Institute for Occupational Safety and Prevention (Istituto Superiore per la Prevenzione e la Sicurezza del Lavoro) carried out a research project to provide trainers and experts responsible for the health and safety education of employees with necessary CSR training. The research was finalised in 2007.

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#### 7.4.4 Partnering instruments

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Global CSR challenges such as climate change or human rights call for coordinated and broad educational interventions in order to generate a common understanding of key challenges and potential solutions.

[...]

##### Box 7.4

##### Good Practice: Italy's support of CSR education in master courses

The UN Global Compact may serve as an example of a culturally shared understanding of CSR. As part of the implementation of the UN Global Compact and with the involvement of the Italian National Committee on Microfinance, the Italian Ministry of Foreign Affairs is encouraging the Italian Network of Universities to increase the number of master degrees on microfinance as a tool of socially responsible action by future finance intermediaries. [...]

A similar approach applies to education in business schools, which can play a vital role in developing future company managers who act responsibly and ethically. The Italian Ministry of Foreign Affairs, in partnership with the Italian Global Compact Network, is encouraging the adoption of teaching methods [such as...] and content focused on the most relevant CSR multilateral instruments [such as...] by the Italian network of business schools.

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#### 7.4.5 Hybrid instruments

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Integrating CSR into education is particularly effective when a large set of intermediaries such as teachers are addressed through one campaign.

I-CSR, an independent think tank established by the Italian government, in cooperation with national and international partners<sup>32</sup> developed the 18-month (November 2008 to April 2010) 'CREaTION Project'. The project was co-financed by the European Commission's Directorate-General for Employment, Social Affairs and Equal Opportunities.

The objective of the project was to integrate and promote CSR and sustainability themes into secondary school curricula through the development of a training model and the training of teachers to educate pupils on CSR topics. The training model included interactive audiovisual tools and games and case studies of CSR champions presented during lessons.

The project involved 34 schools, 55 teachers and more than 1,000 students in Italy, the United Kingdom and Romania (13 schools and more than 400 students in Italy) and dealt with core subjects such as organisations and business behaviour, health and safety at work, equal

<sup>32</sup> National partners: Province of Milan and Clerici Foundation; international partners: UK Business in the Community, CSDR Democratic Trade Union Confederation of Romania and the Association of Journalism and Mass Communication Studies of Bucharest University

opportunity and diversity, responsible consumption, energy savings, environmental protection and community involvement.

Following the success of the Project, I-CSR is planning to promote the adoption of the training model in order to achieve a more complete coverage at national level and to integrate CSR and sustainable development into general school curricula.

Generally, I-CSR is active in training initiatives involving SMEs, public authorities, chambers of commerce and schools in order to provide trainers and teachers as well as workers and students with basic knowledge about CSR culture, practices and instruments.

Developing and launching CSR modules for higher education can be a valuable tool to disseminate information on how to embed CSR into business practice as these teaching models are designed for future business leaders.

Bulgaria and Germany highlight the importance of integrating CSR in education in their CSR action plans.

#### Box 7.5

##### Good Practice: Bulgaria's core objective regarding CSR education

Bulgaria's Action Plan on CSR from 2009 introduces several tasks to be achieved for the implementation of the national CSR strategy, also launched in 2009. One core objective of the plan is to establish and strengthen the capacity of expert stakeholders in the field of CSR. To achieve this objective, it is proposed to develop and implement educational programmes on CSR such as for example, the integration of knowledge and skills in business ethics in various subjects in secondary education, and the development of training modules on CSR for civil servants. [...]

Germany's CSR action plan, launched in 2010, emphasises that value-oriented education, which includes questions of ethics and ecology as well as awareness on sustainability issues, is a prerequisite for comprehensive sentencing and competence in the global economy. It is thus argued in the strategy document that only when the principles of sustainability and CSR are embedded in every level of education (from primary and secondary education to vocational and higher education and lifelong learning) and taught to (future) employees, (future) consumers and (future) business leaders, will sustainability and CSR issues have an impact on business-related decisions (e.g. purchasing).

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## 7.5 Conclusions and upcoming initiatives

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### 7.5.1 General conclusions

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The key purpose of the promotion of CSR in education is developing knowledge and upgrading qualifications among students, teachers, academic staff, trainers and employees.

Indeed, although the EU and Member States use a wide set of policy initiatives to integrate CSR into education, informational initiatives predominate.

In addition, some Member States have taken further steps by integrating CSR or sustainable development into their legal frameworks of education in order to establish the two topics as core contents to be taught in different levels of education.

Furthermore, it is remarkable that environmental issues and social issues are integrated nearly equally into education initiatives. Various campaigns – at both EU and Member State levels – address the issue of climate change in recognising that educational institutions can play an important role in raising awareness of this pressing sustainability issue. Initiatives with regard to climate change mainly focus on primary and secondary education. In turn, against the background of the financial crisis several initiatives address social issues such as business ethics. Policy initiatives on business ethics tend to focus particularly on business schools.

Initiatives address pupils and students as well as teachers and trainers. The focus on teachers is particularly relevant with regard to complex topics such as climate change. Teachers are interpreters of a subject and can familiarise pupils in primary and secondary school with the issue of climate change and help them gain a sound understanding of the underlying scientific concepts, potential impacts on humans, ecological systems and economies, as well as how to protect the climate.

A final conclusion that can be drawn is that the vast majority of initiatives are initiated by individual Member States. Broad educational interventions which rest upon the cooperation of several Member States were only identified in one case.

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### **7.5.2 Upcoming initiatives**

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CSR in education is a rather new concept. Not surprisingly though, several initiatives are currently planned or ongoing.

In August 2010 the Danish Council on Corporate Social Responsibility discussed recommendations on further embedding CSR in the broader educational system in Denmark. The Council, appointed by former Minister of Economic and Business Affairs, Lene Espersen, consists of 17 members representing Danish interest groups and trade organisations. Its purpose is to support and contribute to Danish companies' work on CSR. [...]

In Spain, the State Council on Corporate Social Responsibility has set up a Working Group on Education and CSR. The State Council was created in 2008 to strengthen and promote CSR policies. It is the framework of reference on this issue in Spain. The group has prepared a working document dealing with subjects related to the incorporation of CSR into the educational system, the dissemination of training and information on CSR, CSR in universities and business schools and curricular innovation and research. The document is expected to be approved by the Plenary Session of the State Council on Corporate Social Responsibility and available in the last quarter of 2010.

As part of its CSR action plan, Germany will launch a large number of initiatives aimed at promoting CSR in education. For example, the Federal Government aims to further strengthen networks between schools and business such as the existing network 'SCHULEWIRTSCHAFT' run from the Federal Ministry of Economics and Technology and the project 'Netzwerk SchuleWirtschaft Ostdeutschland' of the Federal Ministry of the Interior.

The Federal Government plans to improve CSR-related education for specialist teachers and aims to develop practical teaching material for vocational education. In order to achieve this, seminars on social and environmental sustainability will be organised (e.g. seminars on CSR education at didacta fair). As for academic research, the Federal Government plans to promote international research networks which focus on the management of socio-economic aspects in business. It is planned to transform these networks into interdisciplinary competence centres. Moreover, German universities are to be encouraged to endorse UNPRME via incentives. For this purpose, the government will examine whether CSR topics can be linked to funding schemes or whether university award schemes could be launched. An example of how to include CSR into funding schemes is the 'WiN' initiative mentioned above.

[...]

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## 8 Sustainable Public Procurement

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### 8.1 Definition

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Most of this Compendium describes public initiatives by means of which governments generate an environment that is conducive to Corporate Social Responsibility (CSR). However, there are two fields where government assumes a more active role, namely, investing and consuming. Government as investor is described in chapter 6. The present chapter focuses on sustainable public procurement, in which governments reward responsible companies by taking into account environmental and social aspects of the products and services they offer.

Public procurement worth two trillion euros annually amounts to some 17 per cent of the EU's gross domestic product, according to estimates made by the European Commission. Public procurement therefore has considerable potential to support CSR among European businesses. There are three conceptions of public procurement that go beyond purely economic considerations. The broadest conception is sustainable public procurement (SPP), under which public authorities seek to achieve an appropriate balance between the three pillars of sustainable development – economic, social and environmental – when procuring goods, services or works. Green public procurement (GPP) is the process in which public authorities take environmental concerns into account in tendering for goods, works and services. Finally, socially responsible public procurement (SRPP) refers to procurement operations that take into consideration the promotion of employment opportunities, decent work conditions, social inclusion and social economy, SMEs, accessibility and design for all, fair and ethical trade issues, and wider voluntary adherence to CSR, while respecting the principles of the European Union's (EU) treaty and of the EU public procurement directives.

While SPP can be seen as the overarching concept, embracing both social and environmental considerations, GPP is probably the most commonly used concept. However, this chapter considers all such public initiatives, whether labelled GPP or SRPP. There is also public procurement which promotes innovation and which is not part of SPP as defined in this Compendium; but initiatives that aim at supporting environment-friendly or social innovations are given due recognition in this chapter.

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### 8.2 Public policies of the European Commission

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For many years now the European Commission has been a driving force of SPP in Europe. In its 2003 Communication on 'Integrated Product Policy: Building on Environmental Life-Cycle Thinking' it stressed the importance of GPP and called on Member States to introduce National Action Plans (NAPs) on GPP. A year later the Council and the European Parliament adopted two directives aimed at clarifying, simplifying and modernising existing European legislation on public procurement. Directive 2004/18/EC and Directive 2004/17/EC provided Member States with the legal basis for including environmental and social considerations in the contract award process. Thus, the two directives facilitate SPP but do not mandate it.

Since implementing this hallmark regulation the European Commission has been promoting the voluntary uptake of SPP policies among EU Member States. Most of these initiatives are informational in nature, which means that they include guidelines, toolkits, awareness campaigns, communications, studies and evaluations.

In July 2008 the Commission published ‘Public procurement for a better environment’ [COM (2008) 400]. This communication set a target whereby 50 per cent of all public tendering procedures should comply with common core GPP criteria by 2010. Ten priority product and service groups for GPP were identified based on a number of factors including the scope for environmental improvement, levels of public expenditure and potential impacts on the supply side (see table 1).

**Table 1: Priority product and service groups for GPP**

First set of criteria	Second set of criteria
Construction	Windows
Food and catering services	Thermal insulation
Transport	Hard floor-covering
Electricity	Wall panels
Office IT equipment	Combined heat and power (CHP)
Textiles	Road construction and traffic signs
Paper	Street lighting and traffic lights
Furniture	Mobile phones
Cleaning products and services	
Gardening products and services	

Following the communication, the Directorate-General (DG) for the Environment published the first set of common GPP criteria in December 2008. It was part of the ‘GPP toolkit’, a collection of reference documents, fact sheets, products sheets and background reports for contracting authorities. Ten criteria cover ten product groups. For each product group there are two types of criteria. The core criteria, which address the key environmental impacts, are suitable for use by any contracting authority across the Member States. The comprehensive criteria are for those who wish to purchase the best environmental products available on the market. By virtue of being clear, justifiable and ambitious as well as based on a life-cycle approach and scientific evidence, the GPP criteria are meant to ease GPP adoption among public administrators as well as companies. For public administrators a set of common environmental criteria considerably reduces the administrative burden, while companies (especially SMEs with small administrative overheads) benefit from them, notably when operating in several Member States.

In July 2010 the Commission made available a second set of GPP criteria for eight new product groups (see table 1). A new procedure had been adopted in April 2010 to select the new criteria. In order to make the process more transparent and participatory, and to enhance synergies among various GPP instruments (such as Ecodesign, EU Ecolabel),

stakeholders were invited to comment on the background studies and draft GPP criteria at several stages of the process. An informal GPP Advisory Group (AG) has been set up for this purpose. It consists of one representative per Member State as well as three representatives of other stakeholders (civil society, industry and SMEs). In addition to the AG, a larger informal group of national GPP experts discusses broader GPP policy issues.

Besides offering standardised environmental criteria and guidance on them, the European Commission initiated a comprehensive awareness campaign and training on GPP and sponsored several studies. The DG for Environment funded training for 40 national GPP policy and procurement experts in 19 Member States in 2009–10 and national GPP conferences across the EU. Aiming at promoting dialogue, sharing best practice and networking among GPP stakeholders in the host countries, the conferences attracted more than 2,000 delegates.

The Commission also funded several research projects in order to further develop its SPP policy. In July 2008 the DG for Employment, Social Affairs and Equal Opportunities published a study on social considerations in public procurement. The project resulted in six case studies, a legal and policy review, an overview of SRPP practices in Member States and 'Proposed Elements for taking account of the Social Considerations in Public Procurement'. The results were meant to help the Commission to draft an SRPP guide.

Further research includes a 2009 study on statistical information on GPP in the EU commissioned by the DG for Environment. Its purpose was to implement a methodology for measuring GPP in Europe, in order to assist Member States and the Commission when monitoring compliance with the targets set in the 2008 communication. In 2010 a cost-benefit analysis of SRPP was carried out for the DG for Employment, Social Affairs and Equal Opportunities. [Its main result was...].

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## **8.3 Public policies in the EU Member States**

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### **8.3.1 Legal instruments**

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Following the European Commission's definition and practice in the majority of EU Member States, SPP is seen as a voluntary option. The two EC directives provided the legal basis for using environmental and social criteria without making them mandatory. [19 Member States had transposed the directives by 2009.] Some Member States have extended their procurement law after having transposed it. For instance, Finland renewed its law on public procurement in 2010. The changes clarify the possibilities of considering social criteria in public procurement, such as basic human rights, equal treatment and non-discrimination. [Transposed procurement law was also extended in Austria].

However, a few Member States take a different approach and make SPP legally binding. The most comprehensive mandatory approach is the one adopted in Portugal, as the whole of central government is required to apply environmental criteria (see box 8.1). In Germany a decree on the sustainable procurement of timber was adopted in January 2007. A general decree on the procurement of energy-efficient products and services was issued in January

2008. It requires administrations at federal level to use life-cycle costing in their procurement procedures to ensure energy-efficient and environment-friendly public procurement. [Legal instruments are planned in Austria].

#### Box 8.1

##### Good Practice: Portugal's Green Framework Agreements

Portugal is the only EU Member State in which SPP is legally binding. Its NAP for 2008–10 sets [several criteria and targets]. In 2010 they became part of the framework agreements established by the National Public Procurement Agency (ANCP). The ANCP frameworks are mandatory for the whole of the central public administration and optional for local procurement authorities.

The ANCP was set up in 2007 to centralise the procurements of the national government and to promote SPP. It oversees compliance with the GPP National Action Plan targets by seeing the letters of commitment and reports on inclusion of GPP in tendering that other departments are required to submit to the ANCP as well as a track of their own launch tenders. To monitor the introduction of green criteria, the ANCP uses the Ministry Purchasing Units network that centralises information on the acquisitions of each ministry.

As a result of the ANCP framework and its monitoring of procurement practices, Portugal managed to exceed the targets set in its NAP. While it envisaged applying GPP sustainable criteria to a total of 30 per cent of tenders by number and value in 2009, central government administrators actually applied them to 41 per cent of tenders by number and 61 per cent of them by value.

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### 8.3.2 Economic and financial instruments

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Many instruments used to support SPP fall within the category of economic instruments, as they have a positive impact on business in terms of encouraging companies to adhere to certain non-economic criteria in order to win a tender. For instance, mandating environmental and social criteria in public procurement or setting sustainable procurement targets for certain priority product groups through NAPs supports, at least indirectly, businesses that operate in the desired manner or offer the specified products and services. However, there are public initiatives in which the contracting agencies assume a more active role by financing sustainable innovations through procurement. This means that they literally invest in pre-commercial products and services and thus become part of the innovation process. The Small Business Research Initiative in the United Kingdom (UK) is one example of what such procurement may look like (see box 8.2). [In Finland the Finnish Funding Agency for Technology and Innovation is devising instruments to allow procurement authorities to invest in innovative environmental technology.]

National awards are another type of economic instrument. Their rationale is to trigger competition among contracting agencies to acquire good reputations for their SPP practices. Since 2008 the Swedish Environment Management Council (SEMCo) has awarded two prizes

annually to purchasers and suppliers: 'Excellent Green Purchaser' and 'Excellent Green Supplier'. The award ceremony is held during the annual Green Procurement conference in Stockholm. The purpose of the awards is to highlight good examples of purchasers and suppliers who work seriously and innovatively with green public procurement. [In addition to a prize sculpture, winners receive the right to use a prize symbol in their marketing.] In Italy the Ministry of Economy and Finance and its procurement agency Consip in 2009 published an 'Award on Sustainable Projects and Green Public Procurement'. The award is meant to publicise and reward Italian public administrations and private enterprises which have achieved important results in, respectively, environmental sustainability and GPP. The prize is a live tree that has to be planted in the winners' premises or donated to a public park. So far the prize has been awarded in 2009 and 2010. [Other awards were launched in...].

**Box 8.2****Good Practice: The UK's Small Business Research Initiative**

The Small Business Research Initiative (SBRI) is a pre-commercial procurement scheme that was first launched in the UK in 2001. It was significantly revised in April 2009. The new SBRI programme aims to use government procurement to drive innovative products and services to meet the future procurement needs of departments. The SBRI thus also aims to support early-stage, high-technology SMEs by providing them with greater access to research and development opportunities. Competitions for new technologies and ideas are run in specific areas and aim to engage a broad range of companies in short-term development contracts. The SBRI thus has two advantages: it enables government departments and public sector organisations to procure new technologies with managed risk through a phased development programme, and it provides companies with paid contracts for the critical stage of product development.

Though the SBRI supports innovation in general, it has been used by government departments to procure sustainable goods and services. Past competitions included, among other things, highly efficient lighting systems for Whitehall, retrofitting UK social housing stock and technologies that help children to take more exercise.

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**8.3.3 Informational instruments**

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Informational instruments are widely used to introduce the relatively new concept of SPP to public administrations. Many Member States issue guidelines and manuals, provide training for contracting agencies and commission studies in order to raise awareness about SPP.

Training is a necessary step for supporting the implementation of SPP practice. It is provided in most EU Member States. [In June 2010 training was available for public administrators in 18 Member States.] In the UK, the Centre of Expertise in Sustainable Procurement is carrying out an analysis of sustainable procurement training needs in order to improve capability. Best practice is also shared between Government departments through the Capability Building for Sustainable Procurement working group. [...]

Practical guidelines are also among the common instruments for raising awareness about SPP. In 2009 the German Federal Ministry of Labour and Social Affairs, the German Federal Ministry of Economic Cooperation and Development and the German Association of Cities published 'Social criteria in procurement law – guidance for local authorities'. [...] However, it should be noted that many guidelines are also mandatory for central government and are thus hybrid instruments (see chapter 8.3.5).

Research is undertaken to identify opportunities for SPP in specific Member States. In April 2008 the Polish Ministry of Economy in cooperation with the Public Procurement Office published 'A new approach to public procurement. Procurement and small and medium enterprises, innovation and sustainable development'. The document highlighted, among other things, the need for the wider use of criteria relating to environmental protection and CSR in awarding contracts. It thus laid the foundation for Poland's SPP NAP (see chapter 8.3.5). [Further studies were carried out in...]

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### 8.3.4 Partnering instruments

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Although SPP is primarily a government matter, many other stakeholders are involved as well. Stakeholder consultations, for instance, are help during the drafting of action plans and development of criteria. [In Slovenia the 2009 GPP NAP was drafted by a working group established for this purpose in cooperation with relevant stakeholders (major contracting authorities, some municipalities, non-governmental organisations (NGOs), representatives of suppliers, Chamber of Commerce and Industry of Slovenia, experts' circles, and so forth).] In Romania work on the GPP NAP started in 2007 through rounds of consultations with stakeholders (central administration, unions of local administration, NGOs, suppliers), followed by an interministerial advisory phase. [...]

Other initiatives are more general. Sweden's SEMCo, for instance, launched an annual conference [in 2008] with the aim of creating a forum for the exchange of experiences and dialogue between target groups.

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### 8.3.5 Hybrid instruments

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Like informational instruments, hybrid public policies form an important group of instruments. This is particularly as a result of the action plans that have been implemented throughout Europe. Hybrid instruments, however, also include working groups or committees that prepare new criteria as well as guidelines and decrees that are not enshrined in law but are mandatory for public administration by executive order.

In 2003 the European Commission in its communication on 'Integrated Product Policy' encouraged Member States to draw up publicly accessible NAPs for greening their public procurement. The NAPs should contain an assessment of the existing situation and targets for the next three years, specifying the measures that would be taken to achieve them. The NAPs are not legally binding but provide political impetus to the process of implementing and raising awareness of GPP and in some cases SPP. The recommendation to adopt NAPs

was restated in the Commission's 'Action Plan on Sustainable Consumption and Production and Sustainable Industrial Policy' in 2008.

Since 2003 [21] Member States have adopted NAPs. Some of them have already adopted their second NAP, for instance Cyprus and Poland. Two Member States (Hungary and Romania) are currently adopting NAPs and four others (Bulgaria, Estonia, Greece and Ireland) are preparing an action plan (see chapter 8.4.2).

Most action plans apply the Commission's targets and the first and second set of product priority groups. However, some Member States go beyond these recommendations. For instance, in 2005 the Dutch government announced it would apply 100 per cent sustainable procurement by the central government (core departments and executing agencies) by 2010. [...] Also, while the Commission's targets and criteria are limited to GPP, some Member States have chosen to use the broader SPP concept. The UK published its 'Sustainable Procurement Action Plan' in March 2007; it refers to the 'social cost of carbon' and contains social clauses and consideration of social enterprises from the Third Sector, among others. Similarly, the French National Action Plan for Sustainable Public Procurement, which was also launched in 2007, makes use of social clauses. [The new action plan...]. The Dutch public procurement policy for sustainability was published in 2008 and foresees standards concerning living wages (or fair trade), working hours, and occupational health and safety for a limited number of products. [It has yet to be decided what supplementary International Labour Organization (ILO) standards will apply to which products and product groups.] SPP is also used in the action plans of [Austria (2010), Belgium (2009), Denmark (2010), Finland (2008) and Poland (2010).]

### Box 8.3

#### Good Practice: Austria's National Action Plan on SPP

Austria has long been one of the leading Member States on SPP and a member of the 'Green 7', that is, the seven Member States with the most advanced GPP practices according to a 2005 study. In July 2010 it published its two-part 'Austrian Action Plan on SPP'. The first part is general and includes information on definitions, targets, measures and implementation. The second part addresses contracting agencies and offers guidance on the implementation of the action plan. It identifies 16 product categories with several sub-product groups and technical specifications. Core GPP criteria are applicable to 16 product categories, namely, graphic paper and printing paper; cleaning service and detergents; IT devices; food and catering services; textiles; furniture; vehicles; horticulture products; electricity; construction; civil engineering; home appliances; interior fittings; office supplies; toilet paper; and (green) events. Advanced GPP criteria are applied for five pilot priority groups – electricity, paper, detergents, road vehicles and IT – which will be evaluated until 2012. By then target quotas will have been set and the percentages of goods subject to sustainable procurement will be increased and monitored each year from then on.

Going beyond GPP NAPs, the Austrian action plan also includes the Commission's guidance criteria for SRRP. Thus it aims to contribute to 'good' and decent working conditions through support for social inclusion and accessibility for disabled people, for SMEs and CSR in general, and for fair and ethical trade. Further elements of the action plan include the

extension of existing procurement networks, the establishment of two working groups to solve budgetary issues and to elaborate SRPP criteria, monitoring, and an evaluation in spring 2013.

As SPP cuts across departmental boundaries, inter-ministerial working groups and other partnering bodies are used to develop and revise action plans and to develop criteria. In Spain an inter-ministerial committee was established to implement and to monitor the GPP NAP [in 2008]. The committee receives progress reports from each contracting agency, prepares biannual reports on the state of GPP, and collaborates with national and international initiatives, networks and working groups that deal with GPP. Germany launched an SPP working group of representatives from the states and the federal government in May 2009. Its remit is to create an 'Alliance for Sustainable Procurement' with representatives from the local, state and federal levels. The alliance aims at increasing the number of tenders to which environmental criteria are applied. Currently the group works mainly on four product groups: green IT, green electricity, public transport, and wood and sustainable forestry. Further activities are planned on textiles, social aspects and the establishment of a national centre of excellence on public procurement. [In the Netherlands draft criteria for SenterNovem's 'Sustainability criteria for products and services' have been developed through stakeholder dialogue and have been assessed for legal validity by an interdepartmental Policy Advisory Group from various ministries with experts in the area of procurement law.] [...]

As noted above, the number of legally binding instruments has so far been limited. Yet many guidelines or decrees are mandatory, if not by law then by executive order. For instance, in the UK the 'Government Buying Standards' of the Department for Environment, Food and Rural Affairs include 60 product groups at two levels, 'mandatory minimum' and 'best practice'. The Standards are mandatory for all central government departments; they were updated in 2010. Likewise, the Belgian federal government updated its mandatory 'Guide sustainable procurement' in March 2008 (see box 8.4). In addition to the guide, the Belgian government issues federal circulars regarding SPP. The circular from July 2009 refers to the acquisition of private vehicles intended for government services and for public utilities. Similar circulars exist in France where, for instance, the PM circular (3/12/2008) sets objectives, strategies and courses of actions for 20 product and service groups, and indicators to fulfil 13 of them. It also aims to expand the use by all purchasers of social clauses for the integration of unemployed people and people with disabilities among others. [In 2009, Finland adopted a resolution on 'Sustainable Choices in Public Procurement'. The aim is that by 2015 all procurement in the central government must take environmental criteria into consideration, while municipal and local government have to do so in at least 50 per cent of their procurement decisions by 2015. The targets are mandatory for central government, but voluntary (though recommended) for municipalities and state enterprises.] [...]

The Romanian action plan [2010–13] sets voluntary and mandatory targets for GPP. For 2010 all targets are voluntary, but from 2011 they will be replaced by mandatory ones. The National Environmental Guard, which is responsible for monitoring GPP implementation, can take action against the authorities to enforce the NAP targets.

[In April 2009, the Finnish Government passed a resolution requiring the public sector to consider environmental criteria in public procurement (which accounts for 15 per cent of Finland's Gross Domestic Product), especially for products and services in energy, building and commuting.

**Box 8.4****Good Practice: Belgium's guide sustainable procurement**

The 'Guide sustainable procurement' is a website with comprehensive information on a wide variety of environmental aspects and labels. The Federal Public Planning Service Sustainable Development issues and updates the guide regularly; the last major update was in March 2008. The guide contains SPP sheets for more than 250 product groups, and sets out detailed environmental and social criteria applying to them. The latter are based on eight ILO core norms, equal opportunities and support for Belgium's community-based economy, among others.

Before the methodology for the guide was adopted, reactions and advice had been sought in a stakeholder consultation process. [To guarantee the social scope and quality, it was submitted to the civil society at the end of 2009.] Moreover, a help desk was set up for federal contracting agencies applying the guidelines, which is mandatory for them. Because of its large number of product groups including both environmental and social criteria, and stakeholder participation in updating it, the Belgian Guide offers a good example of a hybrid instrument.

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**8.4 Conclusions and upcoming initiatives**

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**8.4.1 General conclusions**

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SPP is clearly on the rise. Following the Commission's procurement directives and its informational initiatives, all Member States engage in SPP. This becomes most apparent in the development of action plans on SPP. Almost all Member States have an action plan in place, which is the basis for a strategic approach to SPP. In most Member States the action plan is confined to GPP. However, [SRPP-related initiatives are gaining momentum and] some of the more advanced Member States and more recent action plans already use the broader SPP concept (such as Austria, Belgium, Denmark, France and the UK). Moreover, SPP is still a voluntary option. Nevertheless, many Member States have issued documents such as decrees, circulars or guidelines that are binding for their administrations. Some countries, including Portugal and Germany, have even adopted legally binding instruments, while others are considering doing so.

[As for the different types of public policies on SPP, informational and hybrid instruments abound. Legal initiatives are also used in some Member States. Partnering and economic instruments are in less demand. This is surprising given that public procurement takes place

on several government levels and across different departments at the same time. It is less surprising, however, that economic instruments are rarely found. Public procurement itself can be considered an instrument that uses economic incentives to change the structure of supply.]

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#### **8.4.2 Upcoming initiatives**

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In 2011 the Commission will evaluate the Public Procurement Directives and review the current state of SPP in the Member States. The results will be compared with the Commission's target to apply GPP to 50 per cent of the product categories specified in the GPP toolkit. The results will also serve as the basis for setting future targets and for the Commission's new Green Paper on how to use public procurement to pursue other policy objectives as laid down in the Europe2020 Strategy. The evaluation includes a comprehensive study, which began in July 2010, commissioned by the DG for the Internal Market. It examines Member States' experience in integrating sustainability and innovation policies in public procurement. It has three parts. In the first part, national policies and strategies are reviewed. The second contains a survey on the extent to which contracting authorities actually implement sustainability and innovation goals, and the means they adopt to that end. The final part will enquire, in light of the intermediate data, whether products and services are indeed environmentally friendly, socially responsible or innovative. Results are expected in March 2011.

Adopting an action plan is an important step on the way to a coherent SPP approach. [NAPs are to be adopted in Hungary and Romania and are currently being prepared in Bulgaria, Estonia, Greece and Ireland.]