



# Final Draft CSR Compendium

Public policies in the European Union

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

By order of



FINAL DRAFT

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## List of abbreviations

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

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

RSCM	Responsible Supply Chain Management
SBRI	Small Business Research Initiative
SCM	Supply Chain Management
SEE	Social, environmental, ethical
SEMCo	Swedish Environment Management Council
SMEs	Small and medium enterprises
SPIN	Sustainable Production through Innovation in Small and Medium sized Enterprises in the Baltic Sea Region
SPP	Sustainable public procurement
SRI	Socially responsible investment
SRPP	Socially responsible public procurement
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNPRI	United Nations Principles for Responsible Investment
US	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.

## 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 affect 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). Examples will be presented throughout the text 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<sup>1</sup>. Five different types of instruments are identified. Legal instruments apply legislative, executive and judicial powers to mandate CSR practises; laws, directives and binding regulations are examples of this instrument

<sup>1</sup> Steurer, Reinhard 2010: The role of governments in corporate social responsibility: characterising public policies on CSR in Europe. In: Policy Sciences 42, 49-72.

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 organizations such as the United Nations (UN) and various stakeholder organizations. 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 highlighted 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 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. 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 and in the Netherlands in 2007.

The Finnish Ministry of Employment and the the Economy (MEE) drafted a comprehensive background paper covering basic issues of CSR defined by the Finnish National Contact Point (NCP), which is also known as 'Committee on CSR'. The paper was sent to stakeholders for comments in 2010; a revised version will be presented in December 2010. Based on the background paper the MEE and the Finnish National Contact Point will probably 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, Denmark 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****Example: 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.

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**1.3.2.1 CSR public policy rationale**

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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 other objectives such as supporting SMEs and increasing transparency, 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 SMEs account for more than 50 per cent (imports and exports) of total Danish trade with developing countries and emerging economies. Consequently, its action plan (see box 1.1) has a strong focus on supporting international CSR initiatives like the Guidelines for Multinational Enterprises of the Organization 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 CSR 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.

With the long tradition of *dirigisme* in France, the state plays an imminent role in economic affairs. CSR is therefore shaped by comprehensive legislation, that is by the 'New Economic Regulations Act' (2001), the 'Grenelle de l'environnement Implementation Planning Act' (2009) and the 'National Environmental Commitment Act' (2010). Due to its wide scope, the Grenelle Environment Forum (Grenelle Environnement) provides a remarkably broad basis for CSR public policy. The French government launched the Forum during the second half of 2007, in order to reflect widely on the environment and sustainable development. The Grenelle Environment Forum took place in 6 multipartite working groups bringing together 40 members in 5 colleges representing the State, local authorities, NGOs, management and labour. The working groups addressed the following themes: "fight against climate change and control of the energy demand", "preserve biodiversity and natural resources", "establish a health-friendly environment", "adopt sustainable production and consumption methods", "develop an ecological democracy", and "promote ecological development methods benefiting employment and competitiveness". The Grenelle Environment



Forum resulted in a final round table and a general report which was drawn up to serve as a “coherence framework for government action” centred on three priorities: climate change control, biodiversity conservation and pollution control.

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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).

An alternative approach is to set up a new organization. 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 organizations, 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 organizations can be used to strengthen international cooperation on CSR. For instance, the French government created the post of "Ambassador for Bioethics and Corporate Social Responsibility" within the Ministry of Foreign and European Affairs in September 2008, followed by the creation of a General Directorate for Globalisation, Development and Partnerships within the Ministry in March 2009. One of this department's main tasks is to present French action on economic and societal issues vis-à-vis global organizations. 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. As for the latter, one can distinguish between an implicit and explicit CSR policy framework. The implicit framework refers to institutions that are not called CSR or clearly linked to this term, but nevertheless supportive of it. Examples are legal institutions such as a constitution or labour law or single government policies such as environmental or higher education regulations. In general, such institutions apply to businesses and require or encourage CSR-related aspects like fair industrial relations or awareness of CO<sub>2</sub> emissions. All EU Member States have such an implicit CSR policy framework to a varying degree. By contrast, the explicit framework consists of all those institutions that were originally designed to promote CSR in any given field. They include, for instance, organizations that were set up by government in order to deal with CSR as well as CSR strategies. In principle, the explicit CSR policy framework is meant to provide a more strategic and consistent approach to CSR. It is not employed by all Member States and there is a large variation in existing approaches. This Compendium deals largely with explicit CSR policy instruments (see figure 1).

**Figure 1: From an implicit to an explicit CSR public policy framework**



**Box 1.2**

**Example: Spain’s Sustainable Economy Law**

In March 2010 the Spanish cabinet approved the Sustainable Economy Law, which is currently awaiting examination by Parliament for approval. 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 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 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.

**1.3.2.4 Monitoring and review**

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.

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. To stimulate peer learning by European OECD NCPs, the results of the peer review of the Dutch NCP are publicly available on an English version of the website of the Dutch NCP.

FINAL DRAFT

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

### 2.1 Definition

Supply Chain Management (SCM) is integral to business and competitive advantage, especially in the production sector. According to the classic definition<sup>2</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

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 Foxconn 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>2</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 organizations (EU, United Nations), corporations, non-governmental organizations (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>3</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 outside the EU. The final report was published in October 2010 and analyses how labour laws can ‘address corporate violations of human rights both within and outside the

<sup>3</sup> Most fair trade approaches are initiatives that began prior to 2007, the starting point of this Compendium.

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 organized 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 organizations 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 organizations 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 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 a Steering Board, set up in 2007 and including four external members representing the interests of UK businesses, trade unions, and non-governmental organizations. The Italian NCP is seeking to highlight HR and the UN framework in the current revision of the OECD Guidelines. It 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 French NCP, organized in a tripartite structure of state, employers' organizations and unions, has examined 16 "specific instances" since its creation. Several of them focused on environmental problems.

The publication of the international CSR norm ISO 26000 in 2010 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. The norm covers human rights and recognises the supply chain as a mode of delivering global responsibility, though this is primarily mentioned in relation to a variety of existing initiatives. After the publication of ISO 26000 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.

Corporations also 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.

For instance, the Netherlands' cabinet vision of supply chain management (2008) encouraged the 'International Corporate Social Responsibility Initiative' carried out by the Dutch Social and Economic Council, which comprises a joint statement, working plan 2010-2012 and annual progress report (see box 2.1).

#### Box 2.1

##### **Example: The Netherlands' International Corporate Social Responsibility Initiative**

The Dutch Social and Economic Council, consisting equally of represented employers, employees and independent experts, advises the Dutch government and parliament on social and economic policy and legislation. Following its advisory report "On sustainable globalisation: A World to be won" (June 2008), the Social and Economic Council launched the International Corporate Social Responsibility Initiative, calling on Dutch trade and industry to actively pursue responsible supply chain practices, and provided in a joint statement basic principles for responsible supply chain management based on guidelines and recommendations issued by the ILO, OED and ICC. The Council also set up a special committee that meets twice a year and reports annually on progress made in introducing responsible supply chain practices.

The Belgian Parliament 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 Organization (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.

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## 2.4.2 Economic and financial instruments

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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 Dutch government provides financial support for the mandate of the Special Representative of the Secretary General of the UN on Business and Human Rights, contributes to the national application of his framework and supports the initiative UN Global Compact Netherlands on human rights (presented at UN Global Compact Business Leaders Summit June 2010), which all consider supply chain issues.

Besides funding the Ethical Trading Initiative since its inception in 1998 (funding in 2010-11 is organized 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).

In another initiative focusing on garments, the French government supports Yamana and its Fibre Citoyenne® programme. It offers a set of services to textile companies to help them integrate sustainable development practices. The aims are, among other things, to give decision-makers a better understanding of the textile supply chain and develop purchasing practices which take quality into account.

**Box 2.2****Example: 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 ministries (e.g. Germany), social affairs and environment ministries, 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.

In 2009, the Dutch government decided on a social public procurement policy with contractual clauses for Responsible Supply Chain Management that can also be applied to the private sector. The clauses relate to human rights by stating that suppliers must become aware of and take the actions that could reasonably be expected of them to prevent and address adverse human rights impacts in their supply chain due to the contract at hand. The policy has a focus on the fundamental labour standards and describes the steps public buyers and suppliers should take to implement this approach.

Another informational instrument approach is to commission research and evaluation. The French Ministère des Affaires Étrangères commissioned a study by the

Commission Nationale Consultative des Droits de l'Homme on corporate responsibility in regard to human rights. Its results were presented at a conference on business and human rights, though the focus was not specifically on supply chains. 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 projects supported by the German government or its bodies include, for example, those on Brazil, China, Kenya and Zambia. The Dutch Ministers of Foreign Trade and Foreign Affairs commissioned a legal study in 2009 clarifying the liability of Dutch parent companies for subsidiaries' involvement in violations of internationally recognised fundamental rights.

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 organized expert seminars on human trafficking and forced labour, thus using the informational instrument to convey legal aspects of RSCM. The Dutch Ministry of Social Affairs organized an international conference focusing on a road map to 2016, which included international companies discussing their role in fighting child labour.

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, organized 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, organized 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 organizations 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 organization 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 organizations 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, supported by the Ministry of Foreign Affairs, provides advisory services and training on CSR to suppliers to the EU from developing countries.

### **Box 2.3**

#### **Example: 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.

#### 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 Organization. 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-) organization and training, the introduction of sustainability standards and the marketing of sustainable consumer labels. The sectoral development programmes of the new Action Plan 2011 – 2015 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 organizing 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 organizations, 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 organizing 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. Created by the Interdepartmental Commission for Sustainable Development, its multi-stakeholder discussion on CSR produced a checklist for supplier relations and developed a toolkit for businesses.

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

<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.



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 organized 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 organized 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 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 supplying 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 other things on the principles of the UN Global Compact and information on human rights provided by the Danish Institute for Human Rights. SMEs will receive guidance on ethical issues which could form the basis for a code of conduct. This could give them a competitive advantage over companies without a similar code of conduct. So far there are no plans to publish company codes in the compass, as it is merely a guiding tool for companies.

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## 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 organizations 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).

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, institutional investors, mutual funds and listed financial businesses must inform about their CSR policies on a 'comply or explain' basis in their annual financial report, and in Spain and Sweden it is obligatory

<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.

for all state-owned companies to publish a sustainability report. Likewise, management boards of Dutch stock-listed and the largest state-owned companies are required to report and be accountable to the supervisory board and stakeholders on issues concerning CSR relevant to their business. Other countries have developed voluntary standards or guidelines to support companies or other organizations. 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 organizations go hand in hand with more regulation, as well as with more guidance for ESG reporting published either by international organizations 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 main 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 organizations, 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, organizations 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.

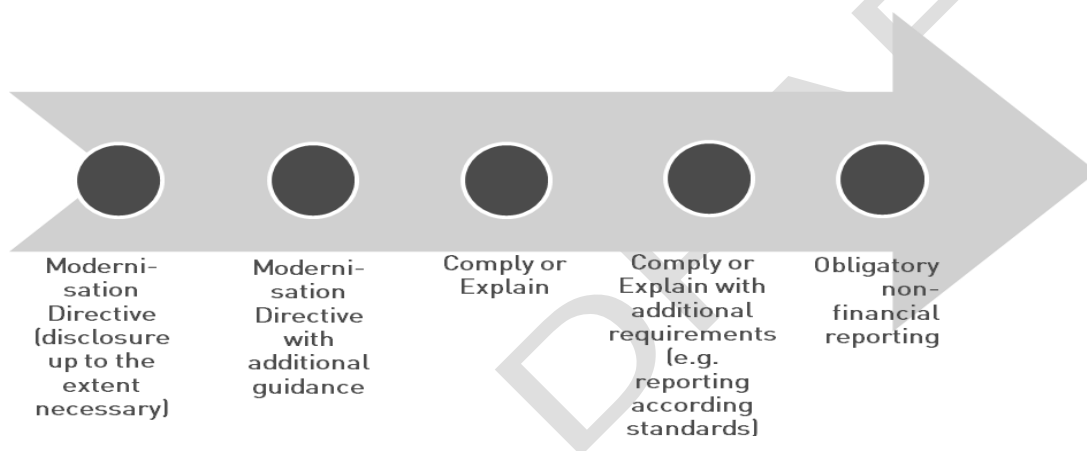
One example of the implementation of the Modernisation Directive is the UK Companies Act 2006, which requires all UK companies – other than small ones – to provide information in their annual reports on the company's strategies, performance and risks (the so-called Business Review). Quoted companies (as defined in section

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

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 (see figure 2). 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.

**Figure 2: Overview of public policy reporting frameworks**



In the Netherlands, reporting on CSR issues by the management boards of stock-listed companies became mandatory in 2008 on the basis of 'comply or explain' for all stock-exchange listed companies registered in the Netherlands and with a balance sheet of more than 500 million euros. The provisions were integrated in 2008 into the Dutch code for corporate governance, which has been legally anchored in the Dutch Civil Code since 2003. It requires companies to explain how they implement international best practice for their management and supervisory boards. Compliance with the provisions of this code is further stimulated by an assigned independent Monitoring Committee for Corporate Governance, which also publishes regular reports on compliance in English. 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 Cooperation 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 amendum, 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 91 per cent of the companies examined state that they work with CSR and that 43 per cent of the companies accounting for CSR had not previously reported on CSR in their annual reports.

Sweden, Spain and Portugal 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

#### Example: 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. In Portugal the Portuguese Minister's Council adopted a Resolution on the principles for good corporate governance of state companies and made the Minister of Finance responsible for an annual assessment of its implementation.

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. Organizations 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.

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 organizations.

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 that 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 organizations, 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.

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 organization of events,

conferences and seminars. For example, the Polish Ministry of Economy and CSRinfo organize 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 (see box 3.2).

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 organizations.

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.

The official Spanish Credit Institute partnered with a regional savings bank (Caja Navarra) to promote reporting among SMEs. A simple electronic tool for producing a standardized CSR report is provided to the clients of Caja Navarra. More than 1,100 SMEs prepared their first CSR report as a result of the initiative in 2009.

An example of a hybrid instrument combining aspects of economic and informational instruments is the recently updated Transparency Benchmark from the Netherlands. Since 2004 it is continuously being developed and updated by the Dutch Ministry of Economic Affairs in consultation with stakeholders, including investors and companies to reflect international best practice, while lowering information costs for both companies and readers of CSR reports. To achieve this, the Ministry bears the cost of the development of the benchmark and company participation 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.

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

### Box 3.2

#### Example: France's 'Grenelle' and CSR reporting

In July 2007 the French Government organized multilateral consultations with representatives of regional and local governments, non-governmental organizations dedicated to environmental causes, employee unions, employers' federations, and consumer and family organizations; 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. Article 53 of the Grenelle I Act of 3 August 2009 sets the target of extending the New Economic Regulation (NER) Act to large enterprises, which are listed according to a number of different criteria (number of employees, annual turnover and existence of subsidiaries, along with a presentation of their contribution to sustainable development). It extends the reporting duty to majority-owned public companies, requests the support of the government on the harmonisation of the sectoral indicators at the community level, and proposes the introduction at the community level of the principle of the recognition of the responsibility of the parent companies for their subsidiary companies in the event of serious environmental damage caused by the company. Finally, it announces that France will propose a working framework at the community level for the establishment of social and environmental standards allowing for comparison between the companies.

Article 225 of the 12 July 2010 law ('Grenelle 2') calls for a re-examination of the decree implementing the NER Act in the light of changes which have taken place within Europe and internationally.

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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.

DG Environment carried out a study on GHG reporting methodologies and initiatives. This is a first step towards the potential development of a technical guidance for reporting the GHG emissions of companies, which could then be gradually extended to other environmental aspects. This would serve the final aim of developing of a methodology for environmental disclosure.

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, retail or building focuses on innovation and investment in clean technologies or services 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. The Eco-Management and Audit Scheme (EMAS) helps companies and other organizations to strengthen their environmental performance: for instance, by integrating environmental concerns into their everyday operations, setting periodical environmental objectives (e.g. to reduce greenhouse gas (GHG) emissions or waste) and monitoring their performance, thus creating a cycle of continuous improvement. EMAS can be considered a full-scale voluntary tool to implement the environmental principles of CSR. As part of the Sustainable Consumption and Production and Sustainable Industrial (SCP/SIP) Policy Action Plan presented in 2008, the Commission initiated the revision of EMAS. The latest Regulation (EC) No 1221/2009 entered into force in January 2010.

The revision of the EU Ecolabel also falls under the SCP/SIP Action Plan. Whereas EMAS focuses on production processes, the EU Ecolabel focuses on products and services. It recognises environmental excellence in products and services and thus contributes to their development. The label also serves as a communication tool for companies to influence consumers' sustainable consumption decisions.

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) (RED) 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.

In 2009 France implemented a law on environmental protection known as the 'Grenelle I Law'. This law establishes the general public policy on sustainable development. Through the 'Grenelle I Law', the government sets several quantitative targets relevant to business (e.g. on the reduction of GHG emissions in the transport sector or the increase of the share of renewables). The so-called 'Grenelle II Law' from 2010 provides further details and implements France's objectives on sustainable development set forth in the 2008 'Grenelle I Law'. It creates an obligation for private entities with more than 500 employees in cities and with more than 250 employees in the country to carry out a GHG emissions assessment. The assessments are to be carried out by 31 December 2012 and must be updated every three years.

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****Example: 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.

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**4.4.2 Economic and financial instruments**

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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.

Financial support may also be provided in the form of funding to promote technological innovations that contribute to tackling climate change. Italy (see box 4.2) and Germany have launched funding initiatives that focus on innovation, energy efficiency and climate protection.



**Box 4.2****Example: 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. IPP 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.

IPP 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 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' (2009).

As part of the 'National Climate Initiative', which was launched in 2008 with the aim of merging ecological and economic interests, 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.

In 2010 the German Ministry for Economic Cooperation and Development launched the 'develoPPP.de' programme in which German or European companies are supported financially when they seek to contribute to sustainable development through their business operations in developing countries. Several projects within the programme include climate protection among their goals.

### 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, various Member States have engaged in information and promotion campaigns to support the uptake of the scheme.

For example, in 2010, the Estonian Ministry of the Environment organized 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 organized by the EMAS-registered Lake Balaton Development Coordination Agency within the 'CHAMP Project'. Almost all organizations from the national EMAS register took part in the event, along with several potential EMAS-registered organizations.

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 Organization for Quality, attracted many interested participants from companies, certifying bodies and auditing firms.

EMS 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 organized by the Polish Ministry of Economy and CSRinfo, a private organization. The aim of the seminar was to familiarise companies with the idea of emissions management.

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 more 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).

#### Box 4.3

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

A possible way to inform companies and consumers about businesses' GHG emissions is to introduce easily accessible online tools. As part of the 'Grenelle I Law', the French Environment and Energy Management Agency (ADEME) introduced a new version of the carbon footprint software 'Bilan Carbone' in 2010. 'Bilan Carbone' is a multi-step tool for assessing GHG emissions. After GHG emissions are assessed, a module measures the company's vulnerability to fluctuations in energy prices and exposure to the taxation of GHG emissions. The tool can be used to account for the GHG emissions of all types of organization: industrial or tertiary companies, administrations or local authorities. In 2009, 2,000 carbon assessments were carried out by companies (85 %), communities (10 %) and administrations (5%). A subsidy accounting for 50-70% of the cost of such assessments can be requested by SMEs.

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.

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>

<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.

The document can be used by other companies looking for examples of how to approach the two instruments.

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#### 4.4.4 Partnering instruments

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Partnerships can be a valuable instrument for climate protection by combining the expertise and resources of different actors. Initiatives often emerge from institutionalised cooperation between the public and private sectors. France, Poland and Portugal have created new institutions designed to strengthen the potential of CSR to tackle climate change.

##### Box 4.4

##### Example: France's 'Strategic Committee for Eco-Industries'

The French government launched a partnership in the field of eco-technologies in 2008 under the action plan 'Ecotech 2012', which was implemented jointly by the Ministry of Industry and the Ministry of Ecology. The ministries created the Strategic Committee for Eco-Industries, a co-operation authority in which both public actors and private companies participate. The committee's mission is to contribute to structuring the still considerably heterogeneous field of eco-technologies (e.g. renewable energy, energy efficiency) and to lay down an industrial policy for eco-technologies.

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 employ a combination of several policy instruments, whether through launching strategies and action plans focusing on climate change and CSR or institutionalised platforms serving various purposes.

Many 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 includes a variety of measures that contribute to sustainable development in the area of climate change and clean energy. Particular measures focus on reducing GHG emissions and encouraging resource and energy savings, as well as promoting the rational and efficient use of resources and energy by businesses. One industry sector covered is for example power generation. Indicators are included in the document to measure how industry meets its requirements.

A few Member States including Belgium, Bulgaria, Germany and Lithuania 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 that seeks to contribute to climate protection.

**Box 4.5****Example: 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 contributions to climate protection. The strategy encompasses several initiatives, including the 'Energy Technology Development and Demonstration Programme', the 'Business Innovation Fund' for the market maturation of green solutions or business tools such as the 'Climate Compass' (see box 4.3), and business partnerships within selected sectors (e.g. the marine sector) which aim to facilitate and motivate 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 including the Netherlands, Germany and Portugal have set non-binding targets in order to meet their commitments under the Kyoto Protocol.

For example, Portugal has launched the National Programme for Climate Changes (PNAC) and the National Plan for Attribution of Emission Licences (PNALE). The PNAC establishes measures aimed at reducing GHG emissions, including the production of electricity using renewable sources. The PNALE (for the period of 2008-2012) sets forth the number of licences attributed to each industry and company as part of EU ETS. These licences can be purchased or sold by companies. Additionally, in 2010 Portugal enacted the National Plan of Action for Energy Efficiency (PNAEE). The PNAEE, which sets energy efficiency targets, includes various programmes and measures that particularly focus on industry as the largest consumer of energy.

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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 instruments generally aim to help companies identify the 'business case' for climate protection. A promising approach to providing information on companies' CSR performance is the launch of online tools to assess or calculate the carbon footprint of products and services which can be used by both companies and consumers. These tools generate quantitative data on companies' performance with regard to their contribution to climate protection.

Several Member States' policy initiatives link climate change with two core business concerns: innovation and resource 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.

### 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 policy initiatives are currently being developed or implemented.

For example, as s 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.

FINAL DRAFT



## 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 approximately 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.

### 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 which they need to adopt more sustainable production and business models. The actions

<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.

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 organizations 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 organizations 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 organizations 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 organizations 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 legislation. As part of ECAP, the European Commission has initiated several projects aiming to build the local environmental expertise of SMEs. These have included capacity building seminars for SME support organizations in 26 Member States (2007-2009), best practice transfer pilot projects (2009) and an 'on-the-job pilot training project' (2010) to support the exchange and transfer of best practices and to cover gaps in the availability of environmental services and expertise to SMEs. Other actions under the ECAP include providing tailor-made environmental management systems, targeted information and funding to improve the environmental performance of SMEs and improved regulation.

To improve the access of SMEs to EMAS, the European Commission initiated the development of the EMAS Easy methodology (made available in 2008), an easy to comprehend, reduced-paperwork, yet nonetheless serious way to implement the scheme. Cluster implementation helps to further reduce the costs of EMAS verification. Pilot projects were organized in all Member States to build capacity in the implementation of this methodology.

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 organization (NGO) Impronta Ethica, the project targeted areas in Austria, Hungary, Italy, Portugal and Spain.

<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>

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 organizations partnered with the EU in the projects, in which with 450 other organizations were involved. Three thousands SMEs were directly assisted. Projects focused on, for example, training business advisors for 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 CSR by SMEs and form the basis for additional policy initiatives. For instance, 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 organizational measures focused on CSR.

#### Box 5.1

##### Example: 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 among SMEs in particular. 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. Its focus is on the development of studies, seminars, conferences and reports to disseminate CSR issues among SMEs.

<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.

### 5.4.2 Economic and financial instruments

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

#### Box 5.2

##### **Example: Greece's 'Green Infrastructure 2010' and 'Green Enterprise 2010'**

The Greek Ministry of Economy, Competitiveness and Shipping launched two projects related to EMAS in 2010 under the operational programme 'Competitiveness and Entrepreneurship'. The projects are co-funded by the European Regional Development Fund (ERDF). The first project 'Green Infrastructure 2010' includes activities with regard to the implementation of EMS. Micro-enterprises and SMEs in the manufacturing sector are eligible for financing. The second project 'Green Enterprise 2010' intends to create favourable conditions for integrating environmental concerns in the operation of enterprises. Micro-enterprises and SMEs are eligible for financing.

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 financing element provides SMEs with low-interest loans for investment in energy-conservation measures.

France and Germany have launched initiatives that promote the inclusion of social aspects of CSR by companies. According to its 'Grenelle I Law' from 2009, the French government will support the creation of labels attesting the quality of companies' management of environmental and social issues. The government will also help to set up an accreditation mechanism within the independent certification bodies in charge of issuing such labels. Based on this law, France will also provide financial support to SMEs that certify their environmental performance.

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 (ESF) 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.

### 5.4.3 Informational instruments

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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.

France has launched several initiatives in the last years to support SMEs' CSR initiatives. For example, the French Government supports the Centre des Jeunes Dirigeants (Young Managers Centre, CJD), a group of more than 300 managers, mainly from SMEs, in the development of a methodology for a 'Global Performance Standard' (GPS). GPS, launched in 2008, is based on the concepts of corporate citizenship, social and environmental responsibility, involvement of stakeholders and other relevant CSR topics. Furthermore, in 2007 the French government launched the website 'Travailler mieux', which provides on information related to improving working conditions specifically targeted at SMEs. In order to understand SMEs' approach to CSR, NetRegs conducted a 'SME Environment' survey in 2007 in the United Kingdom. The aim of the survey was to reveal the environmental attitudes and behaviours of SMEs. NetRegs is a partnership between environmental regulators in the UK: the Environment Agency in England and Wales, the Scottish Environment Protection Agency and the Northern Ireland Environment Agency.

The Finnish Ministry of Employment and the Economy (MEE) commissioned and published in 2009 a good practice brochure on CSR in SMEs to support the implementation of the 'Development Strategy of CSR for SMEs' from 2008. The brochure includes company examples of how to implement CSR approaches in order to assist SMEs in developing their own responsible 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.

Following the Danish 'People and Profit' project, which was carried out between 2005-2007 with the support of the ESF and provided training on CSR issues for more than 12,000 managers and employees, a number of online tools targeting SMEs have been developed. One example is the 'Ideas Compass', a website launched in 2010 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.

Workshops and seminars have been used by Portugal and Finland to increase knowledge about CSR on the part of SMEs and overcome information barriers. The Portuguese Ministry of Economy, Innovation and Development organized 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 organized 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 organizations and civil society organizations, has arranged a regional seminar in December 2010 where SMEs as well as consultants of SMEs are 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 'Fabrica 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 (see chapter 3.2). 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.

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).

<sup>12</sup> ISO 26000 is a voluntary guidance standard on social responsibility which was published in 2010.

**Box 5.3****Example: 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 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.

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**5.4.4 Partnering instruments**

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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 to share valuable knowledge and expertise as well as reduce the costs of action and lead to improvements that initiatives aimed at individual SMEs cannot achieve.

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 organizations<sup>13</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.

<sup>13</sup> Participating business organizations 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).



**Box 5.4****Example: 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>14</sup>, which is subsidised within the framework of the ERDF. The aim of the project is the sharing of experiences to promote 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
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.

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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

<sup>14</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.

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.

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.

Following a strategic approach to CSR is a key requirement for a company in order to fully reap the benefits of the concept. In June 2010 the Pomerania Development Agency, in cooperation with partner organizations from Poland and Sweden, began to implement the project 'Responsible Enterprise' (RespEn), targeted at SMEs in the Pomorskie province in Poland and the Kalmar region in Sweden. The key objective of the RespEn project is to improve the competitiveness of micro-enterprises 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 business meetings, thus enabling Polish and Swedish companies to become acquainted with CSR principles, in particular with regard to initiating international commercial cooperation.

In a similar vein, creating or identifying the 'business case' for SME engagement in CSR is a key requirement for a successful CSR approach. However, creating and identifying the 'business case' is also a key challenge for policymakers. Portugal has launched two partnering initiatives that form the basis for information activities. These activities promote the potential of taking a proactive approach towards environmental and social responsibility to SMEs. The aim of the project 'Social responsibility in SMEs' from 2008/2009 is to encourage the adoption of more responsible business practices by SMEs to achieve excellence in CSR performance. As part of the project, current CSR practices of SMEs are assessed and the potential for improvement is identified. The 'SME's Social Project. Energy, environment and social responsibility', launched in 2010, intends to encourage SMEs to manage energy,

environmental and social impacts efficiently with the aim of achieving improved levels of productivity and competitiveness, reducing costs and building a fairer society. The two initiatives are based on a partnership between industrial associations and the Portuguese Association of Business (Enterprise) Ethics (APEE) in cooperation with Directorate General for Economic Activities (part of the Ministry of Economy, Innovation and Development).

#### Box 5.5

**Example: International cooperation ‘ERIK ACTION’** CSR as a driver of innovation is frequently seen as making a convincing ‘business case’ for SME engagement in CSR. For this reason, the regional government of Tuscany in Italy partnered with ten European regions<sup>15</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.

Tuscany shared its experiences with its CSR programme, ‘Fabrica Ethica’. Through various activities such as covering a share of SA8000<sup>16</sup> and environmental certification costs for industrial SMEs or providing information to SMEs related to CSR, ‘Fabrica Ethica’ helps focus SMEs’ activities on CSR.

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

<sup>15</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), Banska 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).

<sup>16</sup> SA8000 is a workplace standard against which companies and factories measure their performance.

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. As of October 2010, more than 5,550 firms in Bavaria are involved in the 'Environmental Pact' and practise environmental protection, for example by increasingly using recycled products, employing alternative sources of energy, or 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 three new agreements, each again for a term of five years. The fourth agreement for a further five-year term was signed in 2010.

Several Member States outline the role of SMEs in CSR in policy documents that define their general approach to CSR. For example, Belgium and Germany have emphasised the importance of CSR in SMEs in their CSR action plans. Belgium's action plan on CSR highlights the role of social economy enterprises and sets the goal of financially supporting these enterprises. 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 the SMEs that are part of their supply chain.

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. These initiatives can take the form of good practice brochures on health and safety issues, guidelines on CSR reporting or workshops on responsible entrepreneurship. Likewise, informational and hybrid initiatives being launched by Member States in various cases 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.

A final conclusion that can be drawn is that policy initiatives do not only cover environmental aspects such as GHG emission reduction, but also social aspects of CSR. Initiatives promoting social aspects of CSR particularly focus on working conditions and health and safety issues. Additionally, various initiatives promote CSR as an integrative concept that encompasses both environmental and social dimensions.

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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 promoting CSR in SMEs. As one of its main policy initiatives, the German government will launch an advisory and training programme – financed by the ESF – to support and improve SMEs’ CSR activities. The programme will offer SMEs practical, tailored assistance in their efforts to strategically incorporate CSR into their business concepts. In addition, the establishment of a central help desk for SMEs on CSR issues as well as an online learning approach towards CSR for SMEs are planned. Furthermore, the government will initiate regional and national events and roundtables to 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. Germany also plans to set up a micro-credit fund to assist micro and social economy enterprises that contribute to achieving social and environment objectives.

In March 2010 the Portuguese Ministry of Industry, Tourism and Trade invited organizations 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 as 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.

FINAL DRAFT

## 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.

### 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>17</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.

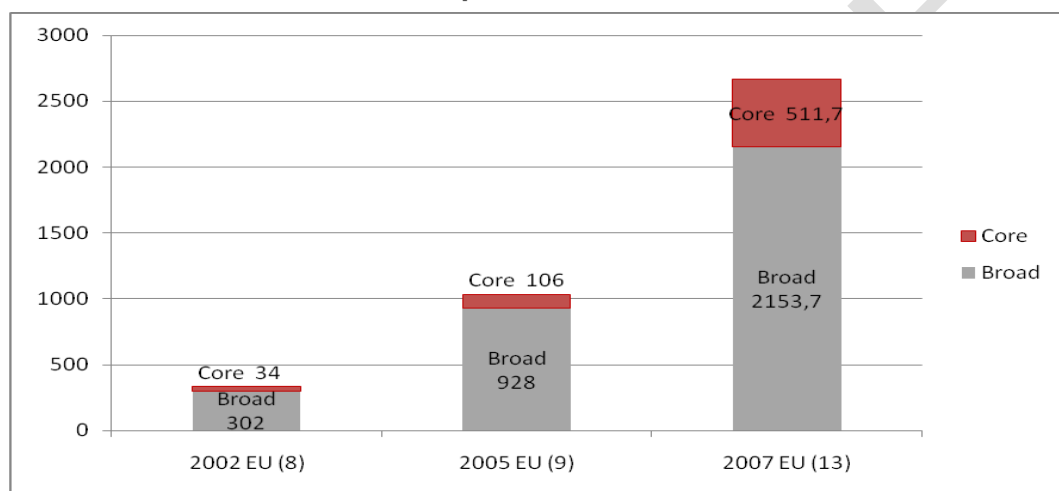
In general, national SRI markets in the EU Member States vary in terms of size and growth. Eurosif distinguishes between two segments of SRI: Broad SRI and Core SRI.

<sup>17</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>18</sup> (including norms-based screening<sup>19</sup> for up to two negative criteria), engagement<sup>20</sup> and integration<sup>21</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>22</sup>, positive screening<sup>23</sup> (including best-in-class<sup>24</sup> and SRI theme funds<sup>25</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 3: Core and Broad SRI in Europe, 2002-2007**



Source: Eurosif European SR Survey 2008

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

<sup>18</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>19</sup> Norms-based screening is a form of negative screening based on companies' compliance with international standards and norms.

<sup>20</sup> Engagement refers to the strategy which aims at influencing company behaviour regarding social, ethical and environmental practices through long-term dialogue.

<sup>21</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>22</sup> Ethical exclusions are made based on at least two negative criteria (i.e. the engagement in multiple negative business practises).

<sup>23</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).

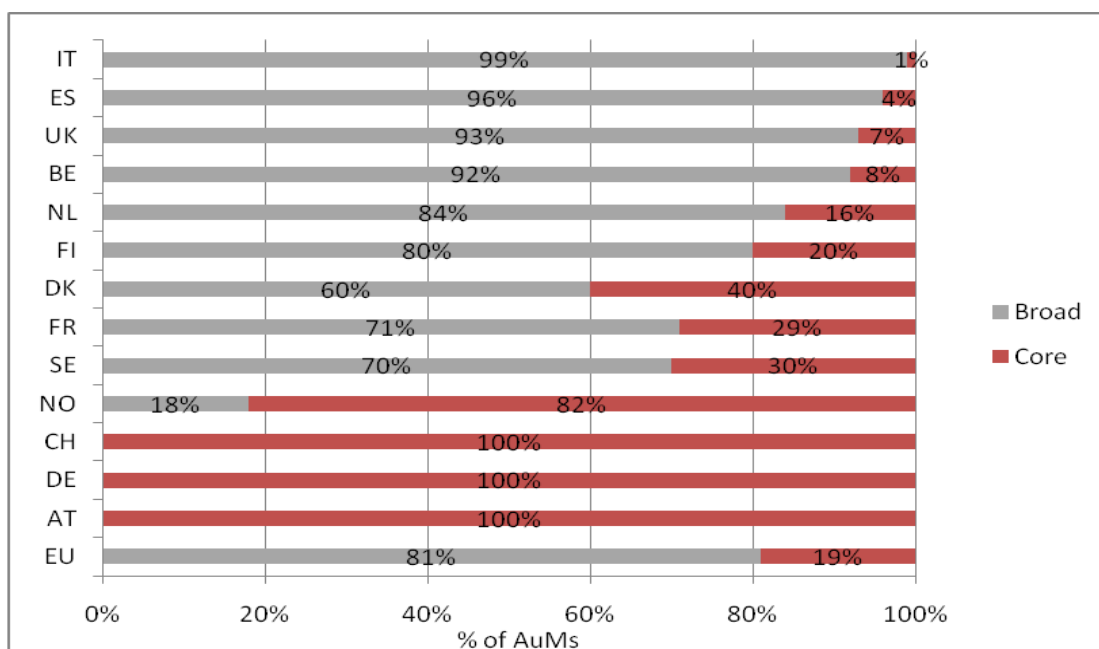
<sup>24</sup> Best-in-class is a screening approach which identifies companies from various sectors with exemplary performance on ESG criteria to be included in a portfolio.

<sup>25</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.



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 4: 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 organizations (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; private investors are also addressed. After financial scandals occurred in 2005/2006, the Italian Parliament passed 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. The new regulation Grenelle II even obliged open-ended investment companies (SICAV) and investment management companies in France to act transparently in relation to their investment policy. Since July 2010 these companies have been asked by the French government to disclose how they integrate ESG objectives in their investment decisions.

Furthermore under the law of the modernisation of the French economy of 2008, corporate savings schemes are also geared towards sustainability. The law enables salaried employees to invest a part of their holdings within the corporate savings scheme in the mutual investment fund “solidarity enterprise”, which was founded within the framework of this law.

With the Dublin Convention on Cluster Munitions<sup>26</sup>, various EU Member States forbid the financing, use, production and repairs of mines and cluster munitions, as in Belgium (2007/2009) and the UK (2010). 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

##### Example: 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 organizations 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.

Finally, SRI in general is also encouraged through legislation. In August 2009 a French law established that socially and environmentally responsible investment will be encouraged by stimulation mechanisms and informational campaigns.

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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.

<sup>26</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.

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 organized 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 organized 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. Research also actively promotes shareholder engagement. In the Netherlands researchers analysed the relationship between CSR and corporate governance; one of their key recommendations focused on changes in the code of corporate governance to empower shareholders in their dialogue with companies.

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**

##### **Example: 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). For example, Denmark's Action Plan for Corporate Social Responsibility propagates the UNPRI along with other international principles. In September 2010 the Danish Government prepared a guide to responsible investment (based on the UNPRI) targeted at Danish institutional investors. Furthermore the guide also includes accessory advice for institutional investors on how to inform clients about their policies for responsible investment according to the Danish reporting requirements. In Finland the Ministry of Employment and Economy also published guidelines which include the UNPRI. Furthermore, the Finnish guidelines included information about ISO 26000 and the Global Reporting Initiative G3 Guidelines. Another example of statutory provisions is the

“action doctrine” adopted by the French Deposit and Consignment Office (CDC) in December 2008. The CDC was one of the first financial institutions to sign the UNPRI. According to the “action doctrine”, the CDC should fully implement the UNPRI in its investment policy. This also means that CDC only invests in companies which publish appropriate information on environmental, social and corporate governance matters.

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 improve long-term returns to shareholders and the efficient exercise of governance responsibilities. The Financial Reporting Council seeks to achieve this by setting good practice on engagement with investee companies to which institutional investors should aspire.

Since 2007 in the Netherlands, the Financial Supervision Act obliges Dutch institutional investors to include a statement about their compliance with best practices applicable to them in their annual report or on their websites.

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#### **6.4.4 Partnering instruments**

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**

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 practise 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, such as issues concerning research on the profitability of SRI, international experience, experience with private and public investment products and services, capacity building and encouraging reporting and aspects of SRI related to financial education. 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'. Leading academics and economists, investors and CEOs from around the world were brought together with the aim to establish an agenda for research in responsible investment. The conclusions of the roundtable were presented in a conference reporting on the subject. Following the Princeton roundtable as well, 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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Achieving sustainable development is not just a matter of good will and commitment; it is also a question of financial resources. SRI is an important lever to promote sustainable development by providing the necessary capital for innovation.

SRI is based on a growing awareness among investors, companies and governments about the impact that ESG risks may have on long-term issues such as sustainable development or corporate performance. Although awareness of SRI has continued to increase in the European Union over the last four years, the number of recent initiatives remains limited. Nevertheless, certain trends on SRI can be identified.

Recent public policies of the European Commission promote SRI mainly in the fields of European development policies, regulation of pension funds and the consideration of ESG issues in investment policies, as well as corporate governance in financial institutions. These issues are also part of public initiatives in the EU Member States.

In relation to development policies micro-finance has gained increasing significance. The growing number of micro-funds alone indicates this development. In the last few years business models have been developed for the successful inclusion of hitherto largely neglected populations. Micro-funds invest in micro-finance institutions that grant micro-credit loans to micro and small entrepreneurs in developing and emerging countries.

Although pension funds control vast assets, so far only seven EU Member States have specific national SRI regulations in place that cover their pension systems. The role of such regulations in promoting SRI cannot be overestimated; they should set the tone for all other pension funds to act accordingly.

The corporate governance of financial institutions has gained increasing importance through the “wake-up call” of the recent financial crisis and its consequences. The Member State and European initiatives range from code of conducts, e.g. the “Stewardship Code” in UK, to regulation by law, e.g. the disclosure regulation on ESG issues in France.

In general, various initiatives have promoted the transparency of SRI in recent years. Mainly informational instruments, e.g. studies, guidelines as well as websites and conferences focus on this issue.

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### **6.5.2** Upcoming initiatives

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According to experts the major challenges for SRI in the future include the mainstreaming of SRI, overcoming scepticism about the importance of SRI, the adoption of tax incentives, the training of financial advisors and providing guidance on best practises to institutional investors in the EU, as well as the expansion of roundtables and partnerships.

Within the framework of Lithuanian GATES (social and environmental business innovations), businesses are to be more involved in discussions on responsible investment. Therefore, a one-day training will be conducted.



## 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>27</sup> However, this may be a difficult task since CSR is an abstract and interdisciplinary concept that can convey a wide variety of meanings.

Generally, CSR can be understood as a business practice that promotes sustainable development. It revolves around business' contribution to environmental, social and financial sustainability and is part of a broader governance approach that shapes markets and rules for businesses to pursue value creation for society and investors alike. Against this background, educational initiatives that do not directly focus on CSR topics such as Climate Change Education and Education for Sustainable development can also make a valuable contribution to carrying forward CSR in education by promoting businesses' understanding of their responsibility towards sustainable development, thus strengthening business' capability to manage sustainable development as well as 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 the critical pressures on our wider ecology and society based on current ways of living (e.g. unsustainable

<sup>27</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.

production and consumption systems, demographics, social injustice, or poverty) and to help individuals (such as pupils, students or executives) to make informed choices about 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 responsible for developing and implementing public CSR policies in government agencies. Ideally, CSR should thus not be understood as an isolated practice or teaching subject but as a crosscutting approach embedded into the wider concept of sustainable development.

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## 7.2 Development of the integration of CSR in education

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The recent financial crisis and earlier corporate scandals in Europe and North America (Shell, Enron, WorldCom and others) have raised serious concerns about the way that business, politics and economics are taught in higher education. Not surprisingly, universities and business schools in particular are being urged to rethink their approach towards management education as a result. Furthermore, with mounting scientific evidence of climate change and its likely adverse impacts on humans and ecosystems, the issue of whether more investment is necessary to bring sustainability issues into primary and secondary level curricula is currently being discussed. In this way, future generations could be already sensitised to the global challenges that they will face in their professional lives before they receive professional and vocational training.

A 2008 global survey conducted by EABIS – The Academy of Business in Society, the European Foundation for Management Development and Nottingham University Business School identified both positive and negative trends in CSR in higher education. Overall there was evidence that CSR was gaining traction as a legitimate subject in management studies. Undergraduate programmes tended to include a foundation course on the role of business in society, while there was a clear rise in the number of specialised Masters programmes and support for PhD students in this field.

However, at business schools and universities, there was little evidence of mainstream progress in MBA and general Masters programmes, as well as executive education offerings. Most increases in teaching activity were seen in elective modules on CSR and/or business ethics, but not in the core curriculum or in the form of dedicated degree courses. This may be due to the fact that many higher education institutes see CSR and sustainability as a stand-alone part of the business and economics curriculum, and not a critical “game-changing” factor in the global and European economies.

The policy of integrating CSR as an essential element in education has matured not only in higher education but also at other levels of education 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 organizations, among them many European business schools, have signed up to the initiative. In 2009 a group of students at 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'. 20 per cent of the graduating class of 2009 at Harvard Business School signed the oath.<sup>28</sup> 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.

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### 7.3 Public policies of the European Commission

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Tackling climate change is one of the EU's key challenges. 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.

<sup>28</sup> The usefulness of the oath is critically discussed in both academia and the business world.

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## 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 and sustainable development into education systems.

In France, education for sustainable development is used to encourage citizens to adopt more sustainable lifestyles. The 'Grenelle I Law', which establishes the general public policy for sustainable development, states that education on sustainable development is to be carried out by all disciplines and is to be incorporated into the daily operation of the educational institutions. It aims to contribute, through its ethical and social dimensions, to the education of citizens by sensibilising them to their necessary contribution to sustainable development

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. For example, a regulation enacted by the Polish Ministry of Education in 2008 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.

Spain has enacted a motion on education that specifically addresses the concept of CSR (see box 7.1)

#### **Box 7.1**

##### **Example: 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.' The motion particularly addresses the inclusion of CSR in secondary and higher education institutions (i.e. business schools), as well as in professional training.

In Finland, sustainability issues, particularly environmental questions, are included in school curricula, such as the national core curricula for vocational studies (2008-2010). The National Board of Education coordinates these curricula. The goals of education for sustainable development in Finnish national core curricula are, among other things, to increase understanding of the connection between human well-being, the economy and protection of the environment, and to establish vocational education that provides the prerequisites for the more sustainable development of industry branches.

## 7.4.2 Economic and financial instruments

Instead of raising awareness of CSR issues directly through informational initiatives or enacting provisions to promote the integration of CSR in educational activities, public policy may also 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

#### Example: 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.

## 7.4.3 Informational instruments

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.

For instance, 'Action on Climate!', launched by the German Ministry for the Environment in 2008, aims to support change processes in the education sector and to improve students' awareness of climate issues. For example, as part of the initiative 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>29</sup> fair in Cologne. The results of the workshops will be an

<sup>29</sup> 'didacta' is the largest trade fair for teachers from all education sectors within Europe.

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.

Between 2007 and 2010, officials of the Finnish MEE visited universities and other educational institutions to give lectures about CSR in order to raise awareness of this topic. Additionally, they 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>30</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' 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.

The Italian Centre for Social Responsibility (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

<sup>30</sup> More information on activities of the EU Commission is available in the 'Sustainable Consumption and Production and Sustainable Industrial Policy Action Plan'.

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

#### Example: 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. Partnership approaches may be based upon different actor constellations. For example, they can be based upon cooperations between Member States and international organizations or upon cooperations between Member States' schools and companies.

A partnership approach to promote CSR in education was also initiated by France. The programme "Telecom passport Circle" may serve as an example for the implementation of CSR within the framework of school-company cooperation. The partnership initiative was renewed in 2009 by nine telecommunications companies (Alcatel-Lucent France, Devoteam, Ericsson France, France Telecom ITS (Orange), Gemalto, Nokia Siemens Networks France, SFR), the national Confederation of mutual Credit, SMI Etap/F1, and several public authorities such as the Ministry of Higher Education and Research. It rests upon three objectives. One of them is linked to CSR education as it aims to encourage equal opportunities and social progress in companies and administrations by strengthening access to relevant company representatives. In order to achieve the objectives, companies proposed to continuously support young people on the basis of individual or collective tutorials or on the basis of complementary help for students during critical stages of their education. As of autumn 2009, 46 colleges, 24 schools of engineers, 16 management schools, and more than 500 tutor schools participated in the programme.

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's 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 and content focused on the most relevant CSR multilateral instruments 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 in cooperation with national and international partners<sup>31</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 organizations and business behaviour, health and safety at work, equal opportunity and diversity, responsible consumption, energy savings, environmental protection and community

<sup>31</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



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.<sup>32</sup> For example, Bulgaria (see box 7.4) and Germany highlight the importance of integrating CSR in education in their CSR action plans.

#### **Box 7.4**

##### **Example: 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 purposes of the promotion of CSR in education are developing knowledge and upgrading the qualifications of students, teachers, academic staff, trainers and employees,

<sup>32</sup> A subsequent step could be to bring CSR modules into standardised accreditation processes and the overall policy for education development in Europe in mainstream courses.

as well as raising awareness of the scale and nature of the present and future social, environmental and governance challenges that business and society face.

Although the EU and Member States have launched various policy initiatives to integrate CSR into education in accordance with the purposes listed above, in the EU, both at EU and Member State-level, 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.

Member States' policy initiatives considered in this Compendium mostly take the form of informational approaches which seek to raise awareness of the importance of promoting CSR and sustainability issues in education. 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.

Environmental as well as ethical and social issues are integrated nearly equally into education initiatives. Various campaigns at both the EU and Member State levels address the issue of climate change by 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. Against the background of the financial crisis, several initiatives focus on business ethics, particularly in business schools. Many public policy initiatives focus on CSR and education at the individual level and the required skills and capabilities of managers to contribute to responsible business. 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 two cases.

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### **7.5.2** Upcoming initiatives

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CSR in education is quite new a 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 organizations. 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 organized (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.

The UK Government recently approved a study to be conducted by Nottingham University Business School and other university research centres to map how and where CSR and sustainability are currently being taught in secondary and higher education.

## 8 Green, Social and Sustainable Public Procurement

### 8.1 Definition

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 green, social and 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 the most commonly used concept. However, SPP is only used for Member States which explicitly employ the term, for instance in their action plans (see chapter 8.3.5). Initiatives in support of green or socially responsible public procurement are referred to in terms of GPP or SRPP, respectively. Apart from these three types, there is also public procurement which promotes innovation or energy efficiency, which is not necessarily part of GPP, SRPP and SPP as defined in this Compendium. Initiatives that aim at supporting environment-friendly or social innovations are given due recognition in this chapter.

### 8.2 Public policies of the European Commission

For many years now the European Commission has been a driving force of GPP and, to a lesser extent, SRPP 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 GPP and to some extent SRPP<sup>33</sup>, but do not mandate it. Before the directives were adopted, the Commission issued an Interpretative Communication in 2001 to clarify possibilities to consider environmental criteria. Although superseded, the Communication is still offers guidance on some aspects of GPP.

Since implementing this hallmark regulation the European Commission has been promoting the voluntary uptake of GPP 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’, which consists of a strategic, legal and operational module. The toolkit is 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

<sup>33</sup> Within certain limits, public procurement can be used to counter racism and institutional discrimination as well as to promote equal opportunities for minorities, men and women and disabled persons.

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 develop the new criteria in order to make the process more transparent and to enhance synergies among various policy instruments (such as GPP, Ecodesign, EU Ecolabel). 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 has already been operating for several years, primarily discussing broader GPP policy issues.

Besides offering common environmental criteria and guidance on them, the European Commission initiated a comprehensive awareness campaign and training on GPP. 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.

Focussing on SRPP, the DG for Employment, Social Affairs and Equal Opportunities published a study on social considerations in public procurement in July 2008. 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. In 2010 a cost–benefit analysis of SRPP was carried out for the DG for Employment, Social Affairs and Equal Opportunities. The aim was to provide a practical tool for public buyers to facilitate consideration of social aspects in public procurement.

The Commission also funded several research projects in order to further develop its GPP policy. This 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.

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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, GPP is seen as a voluntary option. The two EC directives provided the legal basis for using environmental and social criteria without making them mandatory. 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.

However, a few Member States take a different approach and make GPP 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.

#### Box 8.1

##### Example: Portugal's Green Framework Agreements

Portugal is the only EU Member State in which GPP 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 GPP. 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.

### 8.3.2 Economic and financial instruments

Many instruments used to support GPP, SRPP and 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.

#### Box 8.2

##### **Example: 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 organizations 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.

National awards are another type of economic instrument. Their rationale is to trigger competition among contracting agencies to acquire good reputations for their GPP 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



Consp 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.

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### 8.3.3 Informational instruments

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Informational instruments are widely used to introduce the relatively new concepts of GPP, SRPP and 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 these concepts.

Training is a necessary step for supporting the implementation of GPP, SRPP and SPP practice. It is provided in most EU Member States. In June 2010 training for public administrators was available 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. In France, several ministries, among them the Environment and Energy Management Agency, offer training sessions to regional and local authorities on responsible public purchasing.

Practical guidelines are also among the common instruments for raising awareness about GPP, SRPP and 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'. In France, the fundamental standards defined by the ILO serve as references for the social and societal aspects and criteria in the guides developed by the SPP study group (Groupe d'étude des marchés développement durable). 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 has been undertaken to identify opportunities for GPP, SRPP and 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).

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### 8.3.4 Partnering instruments

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Although GPP, SRPP and SPP are 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 organizations (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 NAP also employs the term SPP. In March 2007, the French government adopted its "National action plan for the sustainable purchases on the open market" for the period from 2007 to 2009. It calls on the actors of public control (ministries, authorities and territorial collectivities, hospitals and public institutions) to make use of sustainable and therefore socially responsible procurement. The NAP proposes voluntary objectives and a genuine accompaniment for the implementation of the responsible purchase policies, while providing examples of good practices. After a review in 2010, a revised plan is expected to be launched in 2011. The Dutch public procurement policy for sustainability was published in 2008 and foresees standards concerning the ILO fundamental labour standards

and human rights for all procurement above the EU thresholds, plus living wage or living income. 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 (2009) and Poland (2010). Moreover, Germany's "Alliance for Sustainable Procurement" employs the term as well (see below).

**Box 8.3****Example: 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 2009 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 SRPP. 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 GPP, SRPP and SPP cut 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. It evolved into 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 the national Sustainable Public Procurement Programme have been developed through stakeholder dialogue and assessed for legal validity by an interdepartmental procurement law working group.

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. In 2008, the French Prime Minister sent to all ministers a "Circular for an exemplary state", which includes 20 objectives in total, of which 12 are linked to GPP. Among other things, it aims to expand the use by all purchasers of social clauses for the integration of unemployed and disabled people. By 2012, ten per cent of all the calls for tenders in industrial sectors in which the labour force comprises at least 50 per cent of manual work will have to include "social clauses". Moreover, each minister has to provide an annual progress report according to the prescribed objectives and defined indicators. From 2010 onwards, a financial "no-claims bonus" mechanism rewards the environmentally efficient ministries and penalises those which do not achieve the aims of responsible management.

#### **Box 8.4**

##### **Example: 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.

In April 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 especially for products and services in energy, building and commuting. 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 draft action plan 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.

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## 8.4 Conclusions and upcoming initiatives

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### 8.4.1 General conclusions

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GPP is clearly on the rise. Following the Commission's procurement directives and its informational initiatives, all Member States engage in GPP. This becomes most apparent in the development of action plans on GPP and SPP. Almost all Member States have an action plan in place, which is the basis for a strategic approach to GPP or SPP, respectively. 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, including environmental and social criteria in public procurement 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 GPP, SRPP and 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 GPP 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 GPP or SPP approach. GPP NAPs are to be adopted in Hungary and Romania and are currently being prepared in Bulgaria, Estonia, Greece and Ireland.

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## 9 Appendix I: Country overview

This country overview provides references to all Member State CSR public policy initiatives mentioned in this Compendium. It is therefore not to be confused with an exhaustive account of all existing Member State initiatives but is confined to the limits of this Compendium (see chapter 1.2).

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CSR in SMEs 58, 59, 66

CSR reporting and disclosure 33, 36,  
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GPP, SRPP and SPP 92, 93, 94, 96

Introduction 12, 13

RSCM 23, 24, 26, 27

SRI 70, 71, 72, 74, 75

## 10 Appendix II: Links

The following list contains links to Member States' websites where further information on country-specific information can be found.

[The HLG Member State Representatives are welcome to complete and improve this list.]

<b>Austria</b>	<a href="http://www.bmwa.gv.at/BMWA.htm">www.bmwa.gv.at/BMWA.htm</a>
<b>Belgium</b>	<a href="http://business.belgium.be/fr/gerer_votre_entreprise/entreprise_durable/">http://business.belgium.be/fr/gerer_votre_entreprise/entreprise_durable/</a>
<b>Bulgaria</b>	-
<b>Cyprus</b>	-
<b>Czech Republic</b>	<a href="http://www.mpsv.cz/en/3894">http://www.mpsv.cz/en/3894</a>
<b>Denmark</b>	<a href="http://www.csrgov.dk/">http://www.csrgov.dk/</a> <a href="http://www.csr-kompasset.dk">www.csr-kompasset.dk</a> <a href="http://www.csrinnovation.dk">http://www.csrinnovation.dk</a>
<b>Estonia</b>	-
<b>Finland</b>	<a href="http://www.tem.fi/index.phtml?s=3232">http://www.tem.fi/index.phtml?s=3232</a>
<b>France</b>	-
<b>Germany</b>	<a href="http://www.csr-in-deutschland.de">http://www.csr-in-deutschland.de</a> <a href="http://www.csr-weltweit.de/">http://www.csr-weltweit.de/</a>
<b>Greece</b>	-
<b>Hungary</b>	-
<b>Ireland</b>	-
<b>Italy</b>	<a href="http://www.i-csr.it">http://www.i-csr.it</a>
<b>Latvia</b>	-
<b>Lithuania</b>	-
<b>Luxembourg</b>	-
<b>Malta</b>	-
<b>Netherlands</b>	<a href="http://www.rijksoverheid.nl/onderwerpen/maatschappelijk-verantwoord-ondernemen">http://www.rijksoverheid.nl/onderwerpen/maatschappelijk-verantwoord-ondernemen</a> <a href="http://www.oecdguidelines.nl/">http://www.oecdguidelines.nl/</a> (website in English) <a href="http://www.internationaalondernemen.nl/dossiers/mvo.asp">http://www.internationaalondernemen.nl/dossiers/mvo.asp</a> <a href="http://www.mvonederland.nl/">http://www.mvonederland.nl/</a>

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<b>Poland</b>	<a href="http://www.csr.gov.pl">www.csr.gov.pl</a> <sup>34</sup>
<b>Portugal</b>	<a href="http://www.ces.pt/">http://www.ces.pt/</a>
<b>Romania</b>	-
<b>Slovakia</b>	-
<b>Slovenia</b>	-
<b>Spain</b>	<a href="http://www.mtin.es/es/sec_trabajo/autonomos/economia-soc/RespoSocEmpresas/index.htm">http://www.mtin.es/es/sec_trabajo/autonomos/economia-soc/RespoSocEmpresas/index.htm</a>
<b>Sweden</b>	<a href="http://www.regeringen.se/sb/d/2657">http://www.regeringen.se/sb/d/2657</a>
<b>United Kingdom</b>	<a href="http://www.bis.gov.uk/policies/business-sectors/low-carbon-business-opportunities/sustainable-development/corporate-responsibility">http://www.bis.gov.uk/policies/business-sectors/low-carbon-business-opportunities/sustainable-development/corporate-responsibility</a>

<sup>34</sup> Planned.