

ISSUE PAPER

**ON THE STATE OF CORPORATE SOCIAL RESPONSIBILITY (CSR)
IN CENTRAL AND EASTERN EUROPE (CEE)**

SPECIAL FOCUS: BOSNIA AND HERZEGOVINA, BULGARIA, ROMANIA AND SERBIA



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1. INTRODUCTION

This paper focuses on the development of CSR in Central and Eastern Europe (CEE), where a dynamic process of social and economic change is occurring, primarily through the process of European integration. Businesses in the region have gone through a difficult period, facing the economic burdens of destruction by war, loss of traditional markets, privatization and a transition to a market economy, all at the same time. Creating a market economy out of a centrally planned economy, and the shift towards the building of civil societies has been an immense task. The cradle-to-grave social welfare system has to a large extent been dismantled and the expectations of citizens transformed. Yet, the change to a market economy has not brought along the expected instant economic prosperity but in fact implied high social costs. The transition resulted in increased levels of unemployment, limited access to healthcare and social marginalization, and has left large gaps in standards of living. Even though the opening of markets brought economic advantages and led to increased entrepreneurial activity, the support for enterprise development has been weak. Furthermore, corruption has penetrated various levels of public power and there is only little political will to address this problem.

As a region in the process of stabilisation and accession to the European Union, the governments in Central and Eastern Europe are under strong pressure to bring themselves in line with EU policies. Pressure has also been exerted on businesses to change substantially over a short period of time, modify their performances and adjust their strategies. One policy that is rapidly gaining importance in the EU is Corporate Social Responsibility and the region's enterprises, especially SMEs, are under pressure to also show clients and potential customers within the Union and elsewhere, that they are conducting business in a socially and environmentally responsible manner.

2. CORPORATE SOCIAL RESPONSIBILITY IN COUNTRIES IN TRANSITION

Social Enterprises vs. Socially Responsible Enterprises

It is easily forgotten that under Communism business existed to serve also the needs of society. Central planning and collective ownership were supposed to ensure that the needs of the entire community were recognized and its well being safeguarded. Before the transition in the 1990s, state-owned enterprises in most CEE countries implemented large-scale cost intensive social programmes that aimed at alleviating social problems they had not caused. With the opening up of markets, these companies were required to operate in a more competitive manner, reducing activities that are not deemed crucial to their business. Consequently, the notion that exercising social responsibility could be consistent with the profit motive was difficult to grasp for many leaders of the newly privatized state-owned industries and entrepreneurs in the region, who took advantage of the opportunities that the introduction of the market economy brought along.

The collapse of the communist regime coincided with a growing public opinion – at least at the global level – that demanded more transparency and accountability from businesses as well as from governments. For entrepreneurs starting to operate in the new post-Communist markets in the region this meant that they could not ignore social and environmental dimensions of running their business. Consequently it is no surprise that the concept of corporate social responsibility is increasingly being embedded within the philosophy and practices of companies in the region – although that is by no means comparable to the developments that can be observed in more mature market economies in that context.

The first steps in developing socially and environmentally responsible business operations in Central and Eastern Europe were most visibly taken by large foreign companies, bringing along a tradition of community engagement. This implied, however, only in few cases more than purely philanthropic gestures. More recently, there has been a growing trend for more practical and strategic engagement, although the philanthropic tradition remains predominant. Many companies, in particular larger multinationals, have set up their own foundations in order to channel support for certain charities and community organizations. But very few of them have managed to align funding criteria with any business objectives or strategy. Community development foundations managed to attract the support of the private sector and have therefore been regarded as one mechanism for bringing companies together with various stakeholders in the community.

3. CSR DEVELOPMENT ON EU LEVEL: IMPLICATIONS FOR CENTRAL AND EASTERN EUROPE

Since the end of the Cold War the transition to a market economy in Europe has not only opened up new opportunities for business but also created a need for mobilisation on the part of the business community in the interest of social stability and the well-being of societies. Within the European Union, better regulation and the promotion of an entrepreneurial culture are important issues on the European agenda. A conference on “Corporate Social Responsibility in an Enlarged Europe” was hosted by the European Commission¹ on February 20, 2006 in Brussels. The conference brought together representatives from business, trade unions, civil society, public authorities and the media, and provided a general overview of the condition and dynamics of CSR in the new Member States, both among multinationals and domestic companies, and offered a perspective on the views of stakeholders. This event highlighted the Union’s specific interest in the development of CSR in the most recent EU members and hence the importance of the discussion surrounding CSR in the candidate countries.

3.1. RECENT DEVELOPMENTS IN THE FIELD OF CSR IN THE EU

In recent years, much progress has been made on CSR since the Lisbon European Council appealed to companies’ sense of social responsibility in March 2000, setting the strategic goal of becoming “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” by 2010. In July 2001, the European Commission presented a Green Paper on “Promoting a European Framework for Corporate Social Responsibility”². The aims of this document were, firstly, to launch a debate about the concept of corporate social responsibility and, secondly, to identify how to build a partnership for the development of a European framework for the promotion of CSR. The Green paper also defined CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”, as they are increasingly aware that responsible behaviour leads to sustainable business success. In 2002, the Commission issued a Communication on “Corporate Social Responsibility: A business contribution to Sustainable Development”³, presenting a strategy to promote CSR across the Union. Following the recommendations outlined in the above-mentioned document, an EU Multi-Stakeholder Forum on CSR (CSR Forum) was set up, which brought together representatives of business, trade unions and civil society. The Forum succeeded in reaching a consensus among participants, but it also revealed significant differences of opinions between business and non-business stakeholders. In March 2006, the Commission issued a Communication on “Making Europe a Pole of Excellence on Corporate Social Responsibility”⁴ suggesting the creation of certain coalition for CSR.

Enterprises are considered to be important actors in achieving EU wide sustainable development objectives, as they are fostering economic growth, job creation and innovation. In its contribution to the March 2005 Spring Council, the EU recognized that CSR “can play a key role in contributing to sustainable development while enhancing Europe’s innovative potential and competitiveness”⁵. In the revised Sustainable Development Strategy⁶, the EC called “on the business leaders and other key stakeholders to engage in urgent reflection with political leaders on the medium- and long-term policies needed for sustainability and propose ambitious business responses, which go beyond existing minimum legal requirements”. Furthermore, the European Council emphasized that “in order to encourage investment and provide an attractive setting for business and work, the European Union must complete its internal market and make its regulatory environment more business-friendly, while companies in turn must develop their sense of social responsibility”⁷. In the Integrated Guidelines for Growth and Jobs (2005-2008), the Council recommended that Member States should “encourage

¹ Within the European Commission, the DG Employment and DG Enterprise and Industry have historically shared responsibility for the Union’s CSR activities, the first by enabling the voice of labour and civil society to be heard, and the latter through facilitating the corporate position.

² COM (2001) 366

³ COM (2002) 347 final

⁴ COM(2006) 136 final

⁵ COM(2005) 24

⁶ COM(2005) 658

⁷ Günter Verheugen (2006)

enterprises in developing their corporate social responsibility". The European Parliament has made valuable contributions to the debate on CSR, notably in its resolutions of 2002⁸ and 2003⁹. Acknowledging that enterprises are the primary actors in CSR development, it was decided to launch the European Alliance for CSR, a political umbrella set up with the objective to promote CSR among large companies, SMEs and their stakeholders. It is an open alliance for enterprises that seeks to promote CSR as a business opportunity creating win-win situations for companies. The Alliance is expected to have a significant impact on the attitude of European enterprises towards CSR and on their positive engagement with social and environmental issues. Furthermore, it aims at forming new partnerships among CSR promoters, and can therefore be seen as a basis for mobilizing the resources and capacities of businesses and stakeholders. As the alliance is no legal requirement, it should be understood as a voluntary business contribution to achieving the goals of the re-launched Lisbon Strategy and the revised Sustainable Development Strategy of the European Union.

The initiative focuses on three levels of activity:

- Raising awareness and improving knowledge on CSR and reporting on its achievements through:
 - Exploring creative ways to exchange and disseminate best practices and tools;
 - Promoting multi-disciplinary research on CSR at European level; and
 - Encouraging the integration of CSR related topics in the curricula of future managers and graduate students in educational institutions.

- Helping to mainstream and develop coalitions of cooperation, focusing on following priority areas:
 - Fostering innovation and entrepreneurship in sustainable technologies, products and services addressing societal needs;
 - Supporting SME development;
 - Assisting enterprises to integrate social and environmental considerations in their business operations in supply chains;
 - Improving and developing skills for employability;
 - Better responding to diversity and the challenge of equal opportunities;
 - Improving working conditions;
 - Promoting innovation in the environmental field (integrating eco-efficiency and energy savings in the product and service creation process);
 - Enhancing pro-active dialogue with and engagement of all relevant stakeholders;
 - Addressing the transparency and communication challenges (making non-financial performance more understandable and better integrated with financial performance);
 - Operating outside the borders of the European Union in a socially and environmentally responsible way.

- Ensuring an enabling environment for CSR through the following activities:
 - Taking advantage of equivalent alliances developed at national level and supporting similar initiatives in countries where there is interest in doing so; and
 - Supporting the organization of review meetings with all stakeholders to evaluate the progress made in relation to the recommendations of the European Multi-stakeholder Forum on CSR and of other trends, developments and innovations in that respect.

3.2. FUTURE OUTLOOK

In the near future, the European Commission intends to play a leading role in terms of promoting social and environmental standards also on an international level. In that respect it envisages to strengthen the sustainable development dimension in bilateral trade negotiations and to encourage the inclusion of provisions to support internationally agreed CSR instruments in bilateral dialogues between the parties. At the same time, trade incentives will be used as a means of encouraging respect for the human and labour rights, environmental protection and governance principles, in particular through the new EU "Generalized System of Preferences Plus"¹⁰, which entered into force on 1 January 2006.

⁸ P5_TA(2002)0278

⁹ P5_TA(2003)0200

¹⁰ IP/04/1264, Brussels, 20 October 2004

In further promoting the concept of Corporate Social Responsibility, the European Commission will emphasize the following key areas¹¹:

- *Awareness-raising and best practice exchange*, with an emphasis on SMEs and on Member States where CSR is a less spread, as well as in acceding and candidate countries. Furthermore, voluntary environmental instruments, such as environmental management systems and the Eco-label scheme will be promoted, as well as other initiatives that make citizens aware of CSR issues and the impact of their consumption and investment choices.
- *Support to multi-stakeholder initiatives*, through the organization of regular review meetings of the Multi-stakeholder Forum and supporting CSR initiatives by stakeholders, in particular at sectoral level.
- *Cooperation with Member States and acceding countries*
- *Consumer information and transparency*
- *Research*, in particular on: links at the macro- and meso-levels between CSR, competitiveness and sustainable development; the effectiveness of CSR in reaching social and environmental objectives; and issues such as innovation, corporate governance, industrial relations, and the supply chain. CSR as practiced by SMEs is considered an important research topic in its own right, but should also be adequately reflected in other areas of CSR research. Additionally, the Life Cycle Social Impacts of processes, products, and services are deemed crucial.
- *Education* in terms of inviting business schools, universities and other education institutions to incorporate CSR into education, as a crosscutting issue, in particular into the curricula of future managers and graduate students.
- *SMEs*, recognizing that a specific approach is needed to foster CSR amongst those businesses.
- *The international dimension of CSR*, implying the promotion of business ethics globally with a view to maximizing the contribution of enterprises to the achievement of the UN Millennium Development Goals.

4. THE EUROPEAN UNION'S APPROACH TOWARDS CSR IN SMES

An important factor for the development of SMEs in Central and Eastern Europe are the perspectives of future membership in the European Union. This entails new opportunities as well as challenges for entrepreneurs. Competition on the domestic market will intensify and entrepreneurs need to invest in order to comply with the new requirements of EU regulations. At the same time, the single market will provide opportunities such as facilitated access to markets and finance, higher potential for different forms of cooperation, or participation in cross-border projects. If SMEs fail to prepare in time for the opportunities a single market can offer, they might face severe problems arising from the competitive pressure and the regulatory requirements, particularly in the first years of membership. One solution to these problems and the survival of smaller enterprises is seen in the targeted preparation and strategic changes in companies' strategies.

Developing a sense of social responsibility is an important issue facing large and small businesses alike. But until recently, the main focus in CSR and most of the available tools and initiatives has been on large companies. Small- and medium-sized enterprises are the predominant form of enterprise in the European Union and worldwide (absolute numbers, contribution to GDP, contribution to employment). Thus encouraging these companies to engage in the CSR movement provides a key opportunity for firms of all sizes to work together and spread ethical business standards along supply chains. In order to persuade SMEs to apply CSR in a more strategic way, SME-specific tools and appropriate support schemes need to be developed.

The support and encouragement of CSR amongst SMEs is one of the priority areas of the European Union's policy on CSR. The European Commission's Green Paper on CSR clearly highlighted the need to involve small- and medium-size enterprises in the debate and to promote socially responsible business practices of those enterprises throughout Europe. This strategic direction is also important to countries in Central and Eastern Europe that are not yet EU members but are interested in joining the Union.

On EU Level, a project on "*Mainstreaming CSR among SMEs*" was launched, which aims at assisting organisations and other entities that support the uptake of corporate social responsibility among

¹¹ European Commission (2006)

SMEs, addressing particularly small business advisors, SME representative organisations, trade/sector organisations, chambers of commerce, larger companies that work with SME suppliers, as well as public authorities, trade unions and NGOs. The project is expected to run from 2005 to 2007, and is financed under the EC's Multi-annual Programme for Enterprise and Entrepreneurship. It builds on the report and recommendations of the EU Multi-Stakeholder Forum on CSR, and on the work of an "SME round-table" that was constituted as part of the forum process.¹² The project consists of two components:

1. Financial support for projects

Following a call for proposals published in May 2005, 16 projects¹³ were selected for funding with the objective to encourage and support CSR among SMEs in different European countries.

Selected programmes involving countries in the CEE Region (Romania and Bulgaria):

The project on '*CSR and competitiveness – European SMEs good practice*' focuses on the linkage between the competitiveness of SMEs and their CSR activities. It comprises a research phase to develop baseline information on the link between the two components and will disseminate the results with a view to raise awareness among relevant stakeholders and SMEs and to encourage the take-up of such activities among businesses. (Includes Romania)

'*CEASAR: CSR relays in Chambers of Commerce*' proposes to develop the capacity of European Chambers of Commerce to offer adapted, realistic and practical CSR services to SMEs. This capacity is supposed to be acquired through a training forum and through on-the-ground skills verifications (company visits). A Practical Guidelines Manual and a web portal will support these activities. (Includes Romania and Bulgaria)

The project '*Responsible Entrepreneurship in SMEs*' aims at developing tools and activities in order to support intermediary business organisations to help improve the competitiveness of their member SMEs through actions of responsible entrepreneurship. In particular there will be a handbook adopted in 10 languages, a training curriculum and more than 40 local seminars with SMEs. Three train-the-trainer sessions will improve the partners' capacities on Responsible Entrepreneurship; a final conference will summarise the project process and its results. (Includes Romania and Bulgaria)

2. The establishment of an expert group to serve as a forum for the collection and exchange of ideas and experience on how best to support CSR among SMEs.

The work of the group was structured around the following seven key areas:

- CSR, SMEs and regional competitiveness;
- The business case of CSR for SMEs;
- Capacity-building for business support organisations;
- Awareness raising;
- Toolkits and management systems, including reporting;
- Supply-chain issues, mentoring and certification; and
- Definition and content of CSR in different national contexts.

Another project on 'Responsible Entrepreneurship' was launched in 2002 by the European Commission and compiled a collection of case studies from SMEs across Europe, providing evidence that small businesses can and do practice CSR, and that doing so helps them to become more successful. A publication containing these case studies is available in 9 European languages. From the CEE region, only a Polish and a Slovenian SME are represented. In addition to that, a 'Pan-European Awareness Raising Campaign on CSR for SMEs' was implemented with the help of the European Association of Chambers of Commerce and UEAPME (European Association of Craft, Small and Medium-sized Enterprises). This campaign ran from October 1994 – June 1995 and produced an introductory toolkit on CSR for SMEs, as well as other resources.

¹² For more information see http://ec.europa.eu/enterprise/csr/ms_sme_index.htm

¹³ http://ec.europa.eu/enterprise/csr/ms_sme_projects.htm

5. DEVELOPMENT OF CSR IN CENTRAL AND EASTERN EUROPE

Most countries in Central and Eastern Europe still find themselves at a much earlier stage of development than other European countries in terms of introducing corporate social responsibility standards. Significant barriers to improving the business environment need to be overcome before the countries in the region will be able to fully adopt the 'Western philosophy'. It is often found that the legacy of past policies of nationalization, central planning, arbitrary political interference, inappropriate industrial policies and corruption have created an environment of mutual mistrust between the private and the public sectors. Nowadays, one of the key challenges still lies in bridging these differences and aligning the interests of businesses, governments and civil society¹⁴. For achieving this, the building of concrete partnerships within the context of CSR promotion, including the public and private sectors, communities and other stakeholder groups, is of utmost importance.

At this stage CSR in the CEE region is still commonly understood as corporate philanthropy or charity, or associated with public relations and marketing strategies, and not as a company's responsibility to all its stakeholders. The first steps in developing a culture of corporate social responsibility in the region, that serve the needs of businesses and stakeholders alike, have been taken to a large extent by foreign companies, which introduced environmentally friendly technologies, a new management culture, and innovative ways for helping to solve social and environmental problems. Some of these firms also set standards for their suppliers and thereby spread new business models among local enterprises. The challenge for Central and Eastern Europe will now be to facilitate and promote the process of introducing CSR as part of their development efforts.¹⁵

5.1. CSR ISSUES AND THEIR IMPORTANCE IN THE CEE REGION

5.1.1. Environmental Protection and Cleaner Production

In the Communist era, decades of under-investment in infrastructural developments, innovation and factory machinery and processes have left their paces in terms of negative environmental impacts. Neglect, mismanagement and overuse of natural resources were among the many unfortunate by-products of the centrally planned economies in Central and Eastern Europe. The countries in the region inherited a legacy of pollution and neglect of environmental infrastructure. The dumping of waste and the extraction of minerals has created many unusable hot spots. In many countries, the energy sector still uses outdated technology and relies on poor-quality fuel. Government subsidies for energy and raw materials kept prices artificially low, eliminating a key incentive to conserve natural resources. Furthermore, the implementation and enforcement of environmental laws were too inconsistent to bring along significant behavioural changes.¹⁶

Nowadays, environmental protection is one of the most important political and economic issues that needs to be addressed in the region. However, governments and businesses have not yet resolved how to share the costs of mitigating the negative environmental impacts of business and restructuring technological processes to make them more environment-friendly. Even though environmental protection in the new EU member States in Central and Eastern Europe has progressed remarkably well in terms of meeting the requirements for accession, many problems still need to be tackled, particularly in the remaining countries in the region.

Slowly, a strong business case in terms of revenue growth and cost savings through environmental process improvements becomes evident also in Central and Eastern European countries. Experience has shown that in the long term, companies that follow sound environmental standards tend to be more competitive in international markets, as such standards promote innovation and modernization of processes. In particular, the use of cleaner technologies is often associated with improved resource efficiency. Moreover, in a globalized world, where the Internet, the news media, and the information revolution evaluate business practices, companies are increasingly judged on the basis of their environmental engagement. Therefore, businesses also adopt environmental policies throughout the supply chain, as suppliers are required to obtain sustainability certifications such as ISO 14000, SA

¹⁴ World Bank (2002)

¹⁵ Simpson (2002)

¹⁶ United States Environmental Protection Agency - Office of International Affairs (OIA)

8000, or FSC (Forest Stewardship Council). Foreign investors, and to some extent also local companies, have spend significant sums for obtaining the newest technologies and have introduced new systems to make industrial processes more sustainable. In doing so, companies in the region have been supported through the cleaner production programmes run by the World Environment Centre, EU's Phare Programme and International Development Organizations' initiatives such as UNIDO's National Cleaner Production Centres, amongst others.

As a precondition for joining the European Union, countries will have to put in place environmental legislation that is in line with the EU standards that are regarded to be among the strictest in the world. The introduction of new legislation has been slow in the region, and there is still a wide discrepancy with EU norms. Voluntary initiatives in that area are growing. They can help to address environmental issues in the shorter term and could effectively support compliance with EU standards through much greater corporate engagement in environmental issues. Such initiatives also reflect the concept of shared responsibility, stakeholder involvement, and the principle that a problem should be solved at the level that can most effectively address it.¹⁷

An analysis of previous experiences of about 20 centres for Cleaner Production worldwide demonstrates that countries in transition face the following basic problems for wider application of cleaner production¹⁸:

- *Absence of clear determination of the state:* Even though different government documents and strategies highlight the importance of sustainable development and the need for environmental protection, it is mostly on a declarative level only. One reason for this is a general lack of understanding of the advantages of cleaner production methods, so that real systematic support cannot be given. Furthermore, government policies focus mainly on urgent social and economic problems, while environmental protection is marginalized.
- *Lack of appropriate legislative:* In some countries in the region, prevention was chosen as one of the key priorities in environmental protection strategies, but the existing legislation does not mention cleaner production as a priority option or a basic industrial strategy in environmental protection at all. The existing legal regulations mainly treat waste and emission control and sanction excessive pollution.
- *Lack of reliable data:* Since there is no systematic monitoring of the state of the environment, it is difficult to recognize actual problems, set clear objectives, and develop actions plans.
- *Lacking interest of industry:* This problem is also caused to a large extent by a lack of information and knowledge on cleaner production methods and the benefits they bring along. In cases where companies are forced by inspectors to implement some action that improves environmental protection, they usually draw on very expensive solutions.
- *Undefined owner's relationships:* Many companies in CEE are under state ownership or their status is still undefined, which means that there is confusion with regard to who assumes which responsibilities.

The **Regional Environmental Centre for Central and Eastern Europe (REC)** is a non-profit international organization aiming at solving environmental problems in the Region. Established in 1990 by the United States, the European Union and Hungary, the REC is an independent, non-profit, international organization located in Hungary. The mission of the REC is to promote cooperation among the diverse environmental interests in the CEE region. Originally intended to support the emergence and growth of environmental NGOs through an active grants program, the REC now offers a much wider range of services to governments, industries and environmental institutions. The Business and Environment Programme is one of its core initiatives, aiming at improving the environmental performance of companies in Central and Eastern Europe. A major emphasis has been placed on SMEs and on tools that reduce operational costs by conserving resources. By doing so, firms can become more cost-competitive while gaining eco-marketing opportunities.

The REC's activities within that programme cover:

- Environmental management schemes,
- Energy efficiency and renewable energy,
- Waste management,
- Water management,



¹⁷ Ten Brink (2001)

¹⁸ Voice of Sustainability Magazine Volume 3

- Environmental health and safety, and
- EU environmental acquis.

AEA Energy & Environment is a leading international company specialising in consultancy, policy support and programme management for policy implementation. AEA has worked extensively in helping governments and industry in CEE states to prepare for EU membership, in particular in candidate countries such as Romania, Bulgaria or Croatia, of which two joined the EU in January 2007. The company has undertaken numerous projects to strengthen the capacity of environmental policymakers and regulators to implement a wide range of environmental directives and legislation into national law, and to strengthen the capacity of industry and regulators to comply with and enforce new legislation. The scope of this work has included, for example, legislation on air and water quality, emission control, land quality, waste management and environmental chemicals.



From 1999 to 2006, the United States Agency for International Development (USAID) **EcoLinks programme** operated in more than ten Central and Eastern European countries. The programme assisted industries and municipalities in addressing the environmental management, technology and investment challenges critical to modernizing infrastructure and improving economic and ecological performance. EcoLinks provided grants and active trade and investment facilitation services to foster market-based solutions to the environmental problems facing industries and municipalities. The program's activities focused primarily on catalyzing cross-border environmental technology and business partnerships between local firms, municipalities, and associations and their technical counterparts in the United States or in neighbouring countries in the region. The project's feasibility studies and collaborative partnerships, which have been facilitated through EcoLinks strengthened the capacity of cities, businesses and government agencies to plan, finance and implement environmental and economic projects, industrial modernization and to launch environmentally oriented commercial enterprises.



5.1.2. Occupational Safety and Health

In the field of occupational safety and health, the transition process with its privatizations, industrial restructuring, new forms of work organization, the break-up of larger state enterprises and the proliferation of small enterprises, has had a direct effect on employment, firm size and industrial relations. These factors in turn influence the way occupational safety and health is dealt with in these countries.

Many CEE countries had to face a significant rise in unemployment levels (and thus stress, exclusion and alcoholism), job insecurity and long working hours, implying psychosocial hazards at work and in private life. Countries in the region are characterized by a common history of a particular system of delivery of occupational health and safety services, administered by the trade unions before transition. This system was based on the classification and certification of hazardous industries, which determined whether workers were entitled to extra pay, early retirement, shorter working hours, and/or food and beverages to counteract the ill-effects of hazardous working conditions. Nowadays, as many countries develop legislation based on the provisions of ILO Conventions and with an eye to European Union integration this system is gradually vanishing. Many states are in the process of modernizing labour inspection services to a state system that integrates health and safety responsibilities. Furthermore, the emergence of a totally different system of industrial relations has a considerable effect on the way further actions in the area of health and safety at work are discussed. The long tradition of trade union expertise links up with autonomous employers' associations in tripartite and bipartite decision-making.¹⁹

5.1.3. Good Governance and Anticorruption Strategies

¹⁹ ILO SRO Budapest Office (2004)

Economies in transition in particular have acute problems with bad governance and corruption. In Central and Eastern Europe, the enormous pace with which the liberalisation of markets took place, brought along a variety of problems that emerged in the process of dismantling the old system without having a new one properly in place. It made visible the problems of an immature legislative and institutional framework, which helped fuel conditions for corruption and poor governance. The simultaneity of political and economic reform that marked the transition process has enabled powerful interest groups to influence the structure of state institutions and the formulation and implementation of economic policy to their own advantage. Generally speaking, corruption in those countries has been facilitated by the rewriting of a huge body of laws, regulations and policies, the enormous redistribution of wealth from the public to the private sector, and the absence of institutions that could have effectively prevented the abuse of public office during the transition process.²⁰

Research shows that corruption has a negative impact on economic development, social services, the empowerment of civil society and the competitiveness of businesses. It further directs investment into unproductive sectors, disproportionately harms the poor and enables environmental abuses. Corruption imposes a particularly high burden on small- and medium-sized enterprises, which often lack the financial resources and managerial capacities to deal effectively with a corrupt business environment.

Huge corruption scandals in some countries in the region have alerted international finance institutions as well as development organizations and governments are under enormous pressure to tackle this problem within their spheres of influence. Less attention has been paid to engaging the private sector in fighting corruption and promoting good governance. Codes of conduct and anti-corruption schemes are a relatively new phenomenon for businesses in the region. In most cases, the entry into force of new laws is the main driver for companies to implement anti-corruption programmes. Those, however, mainly aim at reducing the firms' vulnerability to fines and criminal sanctions and are still far from demonstrating a conviction of management that tackling the problem should form part of the corporate philosophy. Only few firms value the business case of fighting corrupt practices in terms of preventing damage to their reputations, protecting and increasing access to capital, preserving share value, controlling costs and preventing internal fraud, to name a few.

Recognizing that a lack of good governance and a poor record of corruption deter investments and market opportunities, efforts are being made in the region to improve the situation, but at a slow pace.

Integra Venture is a network of community economic agencies in Central and Eastern Europe, which offers practical support for entrepreneurs to set-up and expand their business. The organization also promotes marketplace ethics and corporate social responsibility, thus helping to strengthen civil society, democracy and a free market economy in these countries.

"*Promoting Islands of Integrity*" is the name of an initiative, which aims at measuring and encouraging the ability of Central and Eastern European SMEs to resist corruption and do ethical business. In June 1999, Integra Foundation Slovakia was the first one to initiate a "Coping with Corruption" program for small businesses, which is now being extended to other CEE countries through partner agencies.

The programmes consist of a baseline assessment, which is a research phase during which an accurate picture of the corruption impact on SMEs emerges, followed by a range of pro-active measures that aim at:

- promoting industry-based collective measures to give individual firms a stronger voice in the face of public or large-scale enterprise corruption;
- creation of a safe and neutral mechanism for firms to notify incidences of corruption;
- designing a simple 'do-it-yourself code of ethics' for small businesses;
- building capacity within Integra local partner agencies to design appropriate social audit tools for micro-enterprises and SMEs; and
- developing policy proposals to support the anti-corruption program of the government, taking into account SMEs specific considerations.

In Bulgaria, Integra began operations in June 2000. Since then, several hundred SME owners across the country have been trained in essential skills to run their own business. The organization has also carried out "Coping with corruption" project and a small loans program for SMEs.

²⁰ World Bank (2000)

Another Integra programme focused on “*Preventative measures in combating corruption, trafficking and exploitative employment through corporate social responsibility promotion among small and medium-sized enterprises*”. In the course of this initiative, seventeen Croatian and seven Serbian SMEs have undergone a consulting process on how to implement corporate governance mechanisms that foster business ethics in the companies’ operations. A CSR Toolkit for SMEs was published in Serbian, Croatian and English. It includes an overview of CSR, local and international case studies on CSR best practice and the creation of a business case for CSR among SMEs in the region. A wide range of public and media events highlighting these issues were organized, particularly in Serbia. One of those seminars titled “Serbia towards European Integration” took place on June 9, 2005, in Belgrade.



5.1.4. Social Inclusion

In many countries in the CEE region historical and cultural barriers have segmented societies, mostly to the detriment of disadvantaged and minority groups. Therefore the expansion of CSR offers an option through which business can promote the process of social inclusion. Companies in the region are playing a crucial role in developing initiatives that offer new opportunities to those groups that have been marginalized through the transition process. This is mainly done through hiring policies that take into account ethnic minorities as well as community-based activities that seek to help disadvantaged young people, women and ethnic minorities. However, such policies have been confined mostly to larger foreign companies. The newly privatized local enterprises are still at the beginning of a long process of recognizing their role in this context.

5.1.5. Community and Consumer based Drivers of CSR

The common perception of consumer activism in Central and Eastern Europe is that it is relatively weak and under-developed. Concerns about sustainability, and hence consumer drivers for CSR are deemed to be luxury considerations, which emerging economies cannot afford. It is certainly true that the level of consciousness about these issues is lower than in other parts of Europe, but there is also no denying that concern is growing. After a decade of quantitative increase in the general consumption, many people in the region have begun to seek goods and services with a special brand, which give complementary satisfaction to the consumer and the notion of being a responsible citizen of the local community by choosing to make use of those specific products that respect social and environmental standards.

5.1.6. Small Business Support and Development

Since the transition process began, the development of a vibrant SME sector in the region has been a priority issue for governments as well as for larger businesses, international agencies and communities. Although much progress can be recorded in this area, it remains extraordinarily difficult for those without connections and without an acceptable financial history or facilitated access to capital to pursue become an entrepreneur. In addition, assuming these obstacles can be overcome, the general support once a business has been set up is less than adequate in many countries. Most small- and medium-sized enterprises in the region have not yet introduced a corporate social responsibility concept. Their involvement with the community and environment is mostly local in scope, of a sporadic nature, and entirely unrelated to their business strategies or operations. The main driver for responsible business practices in these firms is still the ethical perspective of the owner and legal requirements. Lack of awareness seems to be the most significant obstacle to stronger social and environmental engagement of SMEs in Central and Eastern Europe, followed by resource constraints impeding new investments and the introduction of environmentally friendlier technologies.

Project “Promoting Economic Development through Social Accountability in CEE countries”²¹

The project aims at improving the knowledge and the dissemination of CSR tools and methodologies among SMEs in Bosnia and Herzegovina, Bulgaria and Romania, and strengthening the cooperation among the SMEs operating in the three countries. A tool named ‘Social Accountability Watch (SAW)’

²¹ Contact: Ms Giulia Bubbolini or Mr Massimo Chiocca c/o CISE, ph. +39054338213, info@lavoroetico.org

was introduced to enhance the transparency on business practices and promote dialogue among the stakeholders. Based on a website, it is an easily accessible tool also for SMEs. Their CSR practices can be assessed and communicated due to the preparation and publication of a social accountability report.

Promotional activities are carried out together with the technical partners (CISE, Unioncamere, ACCOA, COSPE) and local partners (Bulgarian Chamber of Commerce, Embassy of Italy in Bulgaria - Sofia, Association LINK – Bosnia-Herzegovina, Chamber of Commerce of Bucharest – Romania) to identify and involve those SMEs that may be interested in enhancing their CSR performance. The project attempts to involve about 30 companies, selected through the presentation of the tool, of support to the implementation and of assistance to the start-up and to the use of the Social Accountability Watch.

The SAW is a two-ways tool that allows not only to collect information on issues related to SA, by drawing on the resources available in the Internet, but also to provide relevant information of SA in the organisation, by using a low-cost monitoring system, which aims at ensuring that the social commitment of the organisation is effective and shared by all interested parties. The SA dimensions that are intended to be deepened and monitored are: work, environment, combating bribery, consumers' interests, science and technology, competition and taxation.

The project is expected to produce a significant impact on the socio-economic environment in the countries involved. It will introduce new corporate social accountability tools and methodologies that involve local SMEs in the creation of new patterns of communication and of transparency with the stakeholders. Furthermore, the co-operation and networks between the SMEs will be strengthened.

This is a project by the Chambers of Commerce of Forlì-Cesena, CISE, COSPE, Unioncamere (Italy), LINK (Bosnia-Herzegovina), Chamber of Commerce and Industry of Romania and Bucharest (Romania), Bulgarian Chamber of Commerce, Embassy of Italy (Bulgaria) and ACCOA, Trans-Adriatic Association of Joint Chambers of Commerce - co-financed by the Central European Initiative.



5.1.7. CSR Mechanisms

Certain mechanisms that allow local and regional companies to enter into partnerships with other actors to promote CSR are already in place. A number of business-led associations, such as the IBLF-affiliated Business Leaders Fora in Hungary, Czech Republic and Bulgaria or the Responsible Business Forum in Poland, are well established as active promoters of socially responsible business practices. These associations also provide opportunities for companies to engage in collective action around issues of common concern and have played an important role in developing skills and capacity for CSR, through training and information-sharing activities. Increasingly, these networks are beginning to forge stronger links with like-minded organisations all over Europe and contribute to a community of CSR intermediaries emerging.

5.1.8. The Public Sector and CSR

Comparisons between CEE countries and those states in Europe where CSR is highly developed reveal that the degree to which the government is committed to creating an enabling environment for CSR makes an enormous difference. In Central and Eastern Europe, governments often give only symbolic support for the adoption of responsible business practices. The issue is still widely interpreted in terms of community engagement, with little understanding of the business case rationale. In general, governments in the region are fast to legislate, but the implementation of such laws remains poorly monitored. Some ministries are increasingly exploring new forms of relationships with the private sector, especially the Environment and Social Affairs and Employment Ministries, which are generally more likely to adopt innovative approaches to complex problems. The initiatives of international development agencies and the European Commission are playing an important catalytic role in stimulating a wider adoption of CSR among businesses in Europe, and although governments in Central and Eastern Europe are not yet wholly in tune with the CSR agenda, this outside impulse is likely to have an effect on the attitudes.²²

CSR practices can contribute to a number of public policy objectives, particularly relevant to countries in the CEE region, such as:

²² Simpson (2002)

- More integrated labour markets and higher levels of social inclusion, as companies actively seek to recruit more people from disadvantaged groups;
- Investment in skills development, life-long learning and employability, which are needed to remain competitive in the global economy and to cope with the ageing working population in Europe;
- Improvements in public health, as a result of voluntary initiatives by enterprises in areas such as the marketing and labelling of food and non-toxic chemicals;
- Better innovation performance, especially with regard to innovations that address societal problems, as a result of more intensive interaction with external stakeholders and the creation of working environments more conducive to innovation;
- A more rational use of natural resources and reduced levels of pollution, notably due to investments in eco-innovation and the voluntary adoption of environmental management systems and labelling;
- A more positive image of business in a society, potentially helping to cultivate more favourable attitudes towards entrepreneurship;
- Greater respect for human rights, environmental protection and core labour standards, especially in developing countries;
- Poverty reduction and progress towards the Millennium Development Goals.²³

5.2. RESPONSIBLE COMPETITIVENESS

Responsible business practice is becoming an important driver of national and regional competitiveness. Research conducted by AccountAbility, a non-profit membership organization promoting accountability innovations that advance responsible business practices, demonstrates that businesses worldwide increasingly build responsibility issues into their strategies to develop and maintain their national competitiveness. Many industries are now using responsible business practices to establish a competitive edge in their markets and contribute to the growth of their national economy.

Two indices are used to measure the status quo as well as the progress achieved in that context - the Responsible Competitiveness Index and the National Corporate Responsibility Index. The first one investigates the relationship between corporate responsibility and competitiveness and highlights, which countries are achieving sustainable economic growth based on responsible business practices. The latter constitutes the world's first assessment of the state of corporate responsibility internationally, assessing over 80 countries on criteria including corruption, civic freedom, corporate governance and environmental management.

A more detailed assessment on the importance of those indices was conducted for the UNIDO project on 'Developing Corporate Social Responsibility in Croatia' and can be found in the report "Towards a Croatian Business Agenda for CSR". This document will concentrate on assessing the status quo of responsible competitiveness across the Central and Eastern European Region with a particular focus on Bulgaria, Romania and Bosnia and Herzegovina.²⁴

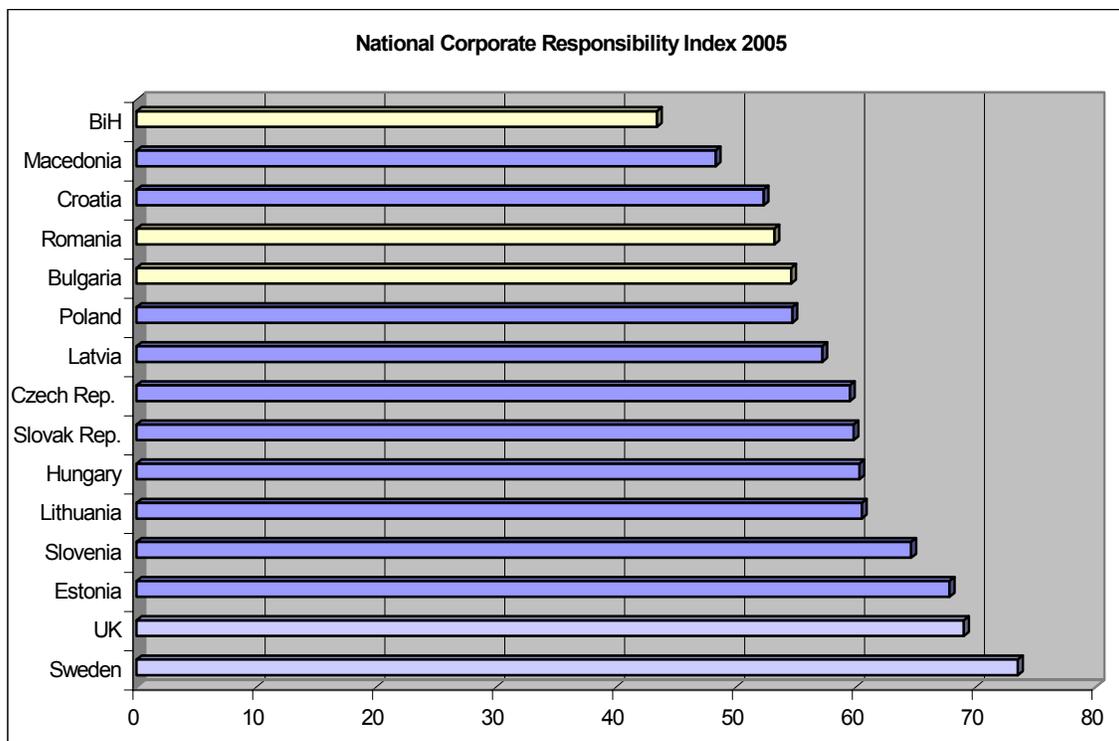
5.2.1. National Corporate Responsibility Index (NCRI)

The National Corporate Responsibility Index (NCRI) is the world's first attempt to measure the state of corporate responsibility across 80 countries, drawing on available data on key factors including levels of corruption, business adoption of environmental management and the state of corporate governance. It also examines the extent to which there is an enabling national environment for corporate responsibility to emerge and develop.

While Western Europe (in particular Nordic states) was the best performer in this Index, with seven countries amongst the ten most responsible ones, this is not true for the CEE region. The ranking shows that Eastern Europe can be roughly divided into two regions. The first one comprises countries that have already joined the European Union, such as Estonia or Slovenia, which are performing relatively well. The other group including Bulgaria, Romania and the Balkan countries, still face serious problems in that respect, meaning that business practices are not yet aligned with corporate responsibility.

²³ European Commission (2006)

²⁴ Currently, no data is available on Serbia



5.2.1.1. Internal dimension: Corporate Governance, Ethical Practices and Human Capital Development

This dimension includes issues such as the strength of auditing and accounting standards, efficacy of corporate boards, the Corruption Perception Index, gap in the implementation of the basic worker rights, quality of human resources approach (training and employee development) and gender equality (private sector employment of women).

In this respect the Central and Eastern European member states and candidate countries in general fall far behind the EU-15 average. In direct comparison, Bosnia performs worst, followed by Romania and Bulgaria, which are more or less on the same level of progress.

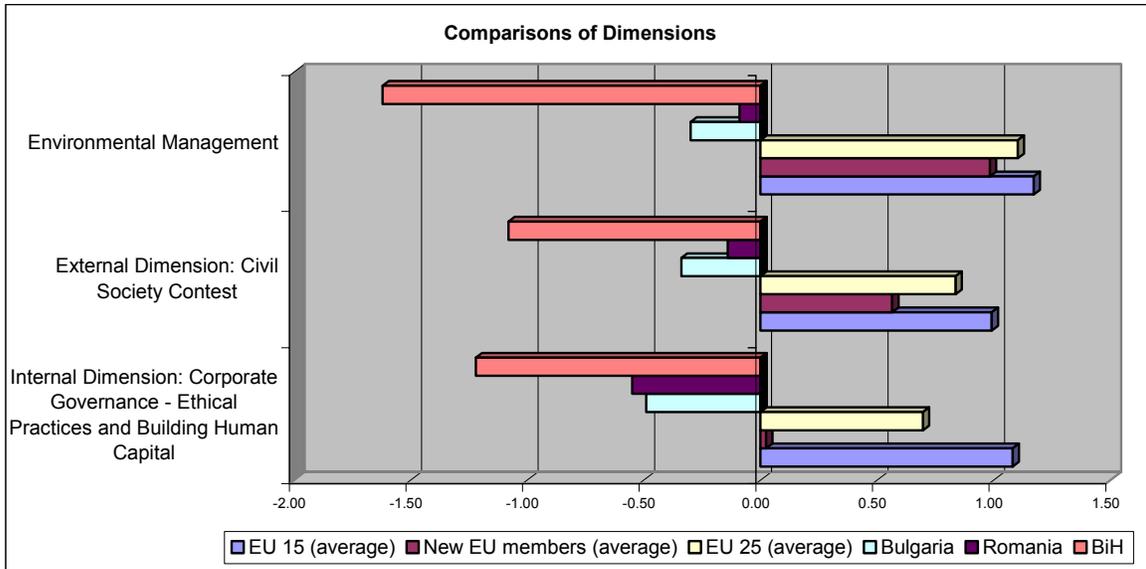
5.2.1.2. External dimension: Civil society context

The external dimension focuses on customer orientation, civic freedom and NGO density. In this regard, Bosnia lacks far behind EU standards, as do Bulgaria and Romania.

5.2.1.3. Environmental management

The third dimension evaluates the stringency of environmental regulations, signing and ratification of environmental treaties (Cartagena Protocol on Bio-safety/ Framework Convention on Climate Change/ Convention on Biological Diversity/ Kyoto Protocol to the Framework Convention on Climate Change), fossil fuels footprint (WWF) - Total energy footprint (global ha/person) and number of certified ISO 14001 companies per US\$ billion.

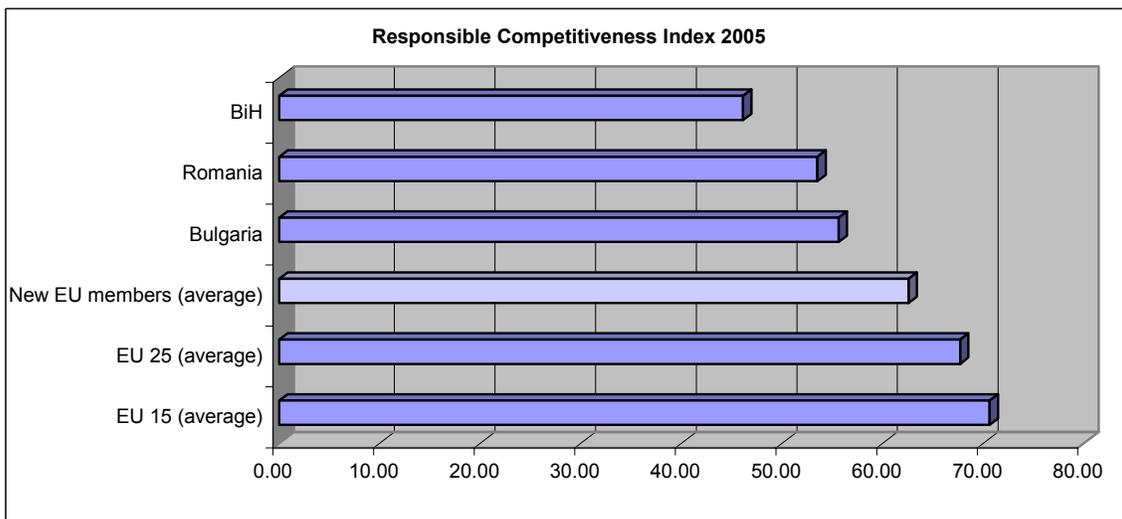
This dimension shows the largest gap between EU-15 states and the more recent member countries from the CEE region. Environmental management is also the area where Bosnia is performing worst and lacks far behind the other states included in this comparison. Romania is slightly ahead of Bulgaria in this respect.



5.2.2. Responsible Competitiveness Index

The Responsible Competitiveness Index is an innovative, country-level index that provides metrics and methodology for exploring the relationship between corporate responsibility and competitiveness, and includes the National Corporate Responsibility. It is essentially an extension of the World Economic Forum's (WEF) Growth Competitiveness Index, as it adds the newly devised measure of the national state of CSR as one more variable to the WEF index, and then re-runs the figures to see if that variable is a statistically significant driver of competitiveness. The results suggest that the overall state of responsible business practices in a given country may indeed be a driver of that country's competitiveness. Responsible competitiveness occurs if an economy's productivity is enhanced by businesses taking explicit account of their social, economic and environmental performance. This research has clearly proven that CSR does affect national competitiveness.

In this index, once again the Nordic countries receive the best rankings, suggesting that they are maintaining sustainable economic growth based on responsible business practices. The most recent EU members lack slightly behind the EU-15 average. As a result of the previous assessments, it comes as no surprise that Bosnia performs worst in that comparison.



6. BULGARIA

6.1. CORPORATE SOCIAL RESPONSIBILITY DEVELOPMENT

The impetus for the development of CSR in Bulgaria was basically given by multinational companies operating in the country and through EU funded projects, which contributed to the transfer of experiences in this field. The relevance of CSR in Bulgaria seems to be to a large extent related to the fulfilment of standards required for being accepted by the European business community and for gaining access to European markets.²⁵ In the course of their transformation, Bulgarian companies have been systematically exposed to the influence of the global CSR trend – partly through specialized international institutions that target ethical business practices, such as International Business Leaders Forum (IBLF) or the UN Global Compact, and partly through multinational companies operating in Bulgaria that provide good examples on how to be socially responsible in a new market environment.

At present, more than 2200 companies are holders of the ISO 9000 certification. Most of them come from construction sector.

ISO 9000 number of certified Bulgarian companies during the years:

1994	1
1995	4
1996	10
1997	42
1998	82
1999	127
2000	259
2001	451
2002	637
2003	883
2004	1129
Present	2233

Source: Club 9000; <http://www.club9000.org/en/>

In July 2006, the first *national conference on corporate social responsibility* (CSR) was held in Bulgaria. It was organized by the National Round Table on the Implementation of Social Standards, which was established in 2004 to encourage the implementation of and compliance with social standards in enterprises (initially in the textiles and clothing sector). The conference titled 'How to integrate CSR into business' was held under the auspices of the Minister of Labour and Social Policy, funded by the Ministry of Economic Cooperation and Development and organised by the German Technical Cooperation Association (GTZ). The EU Commissioner for Employment, Social Affairs and Equal Opportunities, Vladimir Špidla, also attended the conference. The main objective of the event was to raise public awareness on the importance of CSR and to encourage more companies to voluntarily implement the requirements of international corporate standards and social responsibility specifications. At the conference, the 'Socially responsible company of the year' award was presented for the first time. The national award for socially responsible companies is an annual competition for SMEs and large companies operating in Bulgaria that are willing to adopt a CSR concept that takes into account their employees, business partners and the local community. Internal aspects of the company that are taken into consideration in the selection process include: human resource management; health and safety employees and working conditions; adaptation to and management of change; and impact on environment and natural resources. External factors include the local social environment, business partners, suppliers and customers, human rights and the environment. The competition is organised by the National Round Table on the Implementation of Social Standards in cooperation with governmental institutions, including the Ministry of Labour and Social Policy (MLSP), the Bulgarian Small and Medium-sized Enterprises Promotion Agency (BSMEPA) and the General Labour Inspectorate (GLI).

²⁵ Gro Kvåle and Torunn S. Olsen (2006)

The conference results show that a variety of factors hamper the implementation of the European social model and the improvement of competitiveness in Bulgarian companies. The international social accountability standard SA8000 is still not widely known in the country's labour market and only few firms invest in working conditions and the environment. The main conclusion of the conference discussions was that efforts should increasingly focus on establishing a legal framework that promotes a more appropriate environment for the development of socially responsible practices.

In 2004, a **project on promoting CSR in the Bulgarian apparel industry** was launched. It involved the government, employers and trade unions with the basic objective of exploring how CSR, in particular improved employment conditions and industrial relations, can improve the industry's competitiveness on international markets. The project was funded by the European Commission and proactively stimulated a constructive dialogue between all parties involved, leading to increased cooperation in jointly working towards making the Bulgarian apparel industry a leader in CSR. The wider objective of the project was to enhance the prospects of achieving competitive benefits by implementing measures in restructured business operations which balance increased labour costs and investments in safer and healthier workplaces with real productivity gains. The partners in that initiative were the Bulgarian government (Ministry of Labour and Social Policy and the General Labour Inspectorate), branch federations of the two nationally recognised trade union organisations²⁶, the owners of the Nike Inc, Adidas-Salomon AG, Levi Strauss & Co and H&M, seven suppliers for these brands, 10 Bulgarian factories with approximately 3,000 workers, and the Balkan Institute for Labour and Social Policy.

The project stretched over four phases:

- Training of the trainers: training of 50 representatives of management and 100 representatives of workers at the factories on how to build CSR capacity;
- Application of gained knowledge in the practical context of factory operations;
- Encouraging shared vision: investigation of issues arising from the practical application of the scheme; and
- Assessment of the impact of the project.

6.1.1. Health and Safety at Workplace

Working conditions in Bulgaria became a huge topic again in January 2006, when two women, collapsed and died at an Italian-owned shoe-making factory, outside the capital. In 2005, the Bulgarian National Labour Inspectorate reported 200,000 workplace violations in 35,000 Bulgarian and foreign companies, mainly in the construction, clothing and food industries.²⁷

Excerpt of the National Working Conditions Survey (2005)²⁸

- The overall satisfaction with working conditions increased from 64% to 73% compared to 2001.
- About one third of respondents find that their job adversely affects their health and personal safety.
- Painful working positions are reported by 42% of the working population. Most affected are employees in textile and clothing, transport, manufacturing and construction industries.
- All the percentages regarding discrimination, intimidation and violence at work remain below 2%.
- In total, 22.5% of employees experience direct and permanent physical or psychological stressors.
- Regarding work-related health problems, overall fatigue was the most common complaint, followed by backache, vision problems and headaches.
- Women report higher levels of psychological symptoms: 75% suffer from anxiety, insomnia, irritability, etc. Trauma/injuries are more typical among men; they are affected three times more than women are by this type of risk.

Safety and health at work is one of the main focal areas of contemporary social policy of the Bulgarian government. The national policy in that field is formed and implemented through coordination within the frameworks of established structures for trilateral cooperation on national, industry and regional levels. The National Council for Labour Conditions is functioning as a permanent trilateral body

²⁶ Those are the Confederation of Independent Trade Unions of Bulgaria (CITUB) and the Confederation of Labour 'Podkrepa'

²⁷ Nikolova (2006)

²⁸ Ministry of Labour and Social Policy and the Working Conditions Fund (2005)

responsible for the coordination, consultation and cooperation in the development and implementation of the government policy on safety and health at work.

Experience in the country has demonstrated that in general employers are not able to fulfil their obligations and meet the legislative requirements if no efficient organization of the activities in terms of safety and health at work is in place. One of the key challenges, therefore, is the elaboration of a proper strategy for implementing company policy in this area, which is directed also towards applying methods and approaches for changes in attitudes of workers towards this problem. A national infrastructure is being established that supports employers in fulfilling the obligations concerning the provision of safe and healthy working conditions. This includes labour medicine services, laboratories measuring the various elements of working conditions, and training and consultation centres for safety and health issues at work. Furthermore, an occupational risk assessment system is being introduced. As a method to manage and plan the activities for safety and health at work it also addresses the social risks such as depressions and violence at work, fear of unemployment, application of various forms for working hours management, need of additional qualifications and training, lack of motivation when the labour relations are not prospective, and hierarchical relations. A Work Conditions Fund was established at the Ministry of Labour and Social Policy, which aims at supporting the introduction of a new organization of work and training in this area. The government also supports the establishment and work of NGOs, such as for instance the Association of Specialists for Safety and Health at Work.

Nevertheless, several problems remain that need to be tackled to further encourage the adoption of CSR standards in that area. The established norms and requirements are widely perceived as an obstacle to business for making profits and the actions of control bodies are regarded as an unnecessary state intervention. In addition, the principles for prevention in current legislation are not fully rationalized and not yet effectively applied. Investments in solving problems related to the working environment are not sufficient. Furthermore, workers and employees are still not actively involved in these processes and also cases, where the management of activities in relation to safety and health at work is integrated in the total management of a company are few²⁹.

“Guidelines for development of the activities for safety and health at work in the period up to 2006”³⁰

1. “Welfare at work” shall be a coordinating element of all activities of the policy of the Ministry of Labour and the state, pursuing protective objectives and motivation for work. The aim is to improve the quality of all types of labour and sustainable improvement of the status of all elements of this concept. The fulfilment of the objectives will be achieved in permanent cooperation with the social partners. The infrastructure of units supporting the employers for the implementation of the main activities and promotion of the safe methods of work and health at the workplace will be actively maintained.
2. Establishment of protection culture of workers and further development of the system of prevention in the activities for safety and health at work, combining a variety of political instruments: development of the legislation, training and education, the social dialogue, the joint social responsibility, economic initiatives and partnership among all participants in the labour.
3. Development of the competitiveness of the Bulgarian employers, based on the implementation of a targeted social policy and quality in the activities for safety and health at work.
4. Expanding the infrastructure of units consulting and supporting the employers, improvement of the quality of this activity.
5. Carrying out a broad and effective control on the compliance with the labour legislation
6. Development of insurance systems and activities and their efficient involvement in the activities for provision and maintenance of safe and healthy working environment in the undertakings. The implementation of the legislation in the part “Safety and health at work” though requires significant investments both in the national bodies and the private sector

Sofiyska Voda AD



On October 6, 2000, Sofiyska Voda AD took over the operation of the water and wastewater services of Sofia through a 25-year concession agreement signed between the Municipality of Sofia and International Water/ United Utilities. The Company provides services to a population of about 1,5 million people and employs more than 1,000 people.

²⁹ Apostolov (2003)

³⁰ Apostolov (2003)

The company is committed to achieving the highest standards of health and safety throughout every area of its business, stating that „accidents, occupational illness and damage to property or of the environment can be prevented by the application of sound management practice“³¹. It will establish and maintain safe working practices for all of its activities, services or products that will eliminate or minimize the risks to employees, customers, the public or the environment. Objectives of the policy:

- Provide and maintain places of work that are safe and without risk to health, together with adequate facilities and arrangements for first aid;
- Conduct business in an organized and responsible manner, adopting systems of work that preserve the health and safety of all employees and others who may be affected by the company's activities, services or products;
- Provide information, instruction, training and supervision to ensure that all employees are fully aware of the hazards of their work and their responsibilities for carrying out their work safely;
- Provide standards of communication that promote the inclusion of employees or their representatives in the developing effective measures to ensure health and safety at work;
- Make available suitable personal protective equipment and protective clothing;
- Monitor the health and safety performance of managers on a regular basis;
- Develop a behavioural safety culture through the application of this policy;
- Ensure that all accidents, incidents and other related occurrences are investigated, and preventive measures are publicised and implemented;
- Ensure that health and safety is a significant factor in the selection process for suppliers;
- Comply with all relevant health and safety legislations.

Health and Safety Business Plan: Safety audits will be carried out in all directorates and departments at least annually. Following these safety audits, business health and safety plans are prepared, detailing any actions that need to be taken to improve performance where deficiencies have been identified. These plans also focus on maintaining standards that have already been achieved. The Management Board will monitor the implementation of these health and safety business plans on a regular basis, requiring explanation from Directors and General Managers for any non-compliance or delays in implementation.

Accident Reporting and Investigation: All accidents, incidents and ill health occurrences will be recorded, immediately investigated and reported to the management board and to the National Social Security Institute.

The corporate responsibility for implementation of this policy rests with the Chief Executive Officer. The Operation Director has special responsibility for health and safety reporting directly to the management board on the implementation of general health and safety. Directors are responsible for ensuring that this policy is effectively implemented in their function. Every manager at every level throughout the organization is expected to make regular reviews of the health and safety standards in his/her area of responsibility and to provide and maintain places of work that are safe and without risk to health and ensure effective implementation of this policy. Managers must allocate sufficient resources (competent staff, information, training and specialist advice) to carry out this policy within their area of responsibility. Regular consultations with employees or their representatives will take place. Formal and informal health and safety meetings will be used to develop involvement at all levels and promote a positive health and safety culture.

The organization and arrangements for implementing this policy, including roles and responsibilities, are documented in the Health and Safety Manual. The Policy will be displayed on principal notice boards throughout the company and brought to the attention of all employees by managers, through active team briefings.

A Health and Safety Manager has the responsibility to monitor the implementation of this policy and report on compliance to the CEO. This also includes independent audits.

6.1.2. Social Dialogue

In October 2006, the Confederation of Independent Trade Unions and the Confederation of Employers and Industrialists in Bulgaria signed a framework agreement to achieve better cooperation between the organisations and with the government and local authorities. The agreement aims at stimulating a constructive dialogue between all actors, promoting cooperation in the areas of company management and development of human resources and enhancing collaboration with regard to project work.

³¹ Kevin Starling, Chief Executive Officer "Sofiyiska Voda" AD, 2003

- Cooperation in the area of social dialogue with state and local authorities will focus on discussions on ideas for improving economic, financial, investment, tax and industrial policies, as well as employment and vocational education policies, amendments to the social legislation, and cooperation at municipal and regional levels.
- With regard to company management and human resource development, such cooperation will aim at improving human rights and labour and trade union rights at workplace; increasing qualification levels and encouraging HR development; implementing flexible working time and organisation of labour; wage systems based on labour productivity and measures to improve labour motivation; joint activity and dissemination of codes of conduct and international framework agreements; and joint initiatives in the area of CSR.
- Joint activities to foster social dialogue between the employers and trade unions involve the elaboration of joint positions for the improvement of social partners' capacity building; encouraging collective bargaining at all levels; as well as developing dialogue and cooperation for the peaceful settlement of collective disputes through the implementation of the law on information and consultation of employees.

Project on strengthening social dialogue in the Bulgarian brewing sector³²

In May and June 2006, the social partners in the Bulgarian brewing sector held meetings within the framework of the Phare programme's project aimed at strengthening social dialogue at national and sectoral level in the country. The main objectives were to facilitate social dialogue and collective bargaining, and to prepare the social partners at all levels to participate effectively in an EU-wide social dialogue. As part of this initiative, the social partners have been invited to present best practices of social dialogue in this sector, which are to be included in a 'good practice guide' to be developed as part of the project implementation.

The brewing sector is considered to be one of Bulgaria's most successful ones in terms of promoting a new industrial relations culture. In Bulgaria, five out of nine brewing companies are subsidiaries of multinational companies, which tend to have well-organized industrial relations systems with active social dialogue mechanisms in place.

Social dialogue has made significant progress in this sector over the last few years and is being expanded to cover an increasingly wide agenda. The key priorities of this dialogue are employment, wages, health and safety, and social policy. As a rule, the labour and social standards reached through such negotiations are considered higher than the average national standards.

Project Activities - Good Practice Examples:

- A charter on ethical standards of the social partners was signed, which seeks to encourage constructive social dialogue and the joint promotion of ILO standards, EU directives and national legislation on workers' rights. The parties have committed themselves to develop constructive dialogue and to cooperate in the interests of the company and its employees. It is seen as an important step towards the introduction of corporate social responsibility in the sector.
- The 'Competition of ideas' system aims to promote work efficiency and productivity and to improve management practices on the basis of proposals from workers. The system allows employees to express their opinions on decision-making on management practices, the economic and financial situation of the company, improvements in work organization, vocational training, and production methods and technologies. It further promotes workers' initiatives and supports the creation of a corporate culture of identification with the company. The proposed ideas are discussed at the Social Partnership Commission and at the end of each year the best proposals receive an award at a meeting with the company management.
- The 'Social plan 2006' is a plan that was agreed by the social partners in Carlsberg Bulgaria and forms an integral part of the company's collective agreement. It aims at improving social policy within the company with regard to the development of human capital, lifelong learning, the introduction of vocational training programmes, an improved work-life balance, the implementation of a new pay system based on the results achieved, and investment in environmental protection and health and safety measures at the workplace. The social partners also agreed to increase social spending on complementary pension insurance, transport, support for workers with serious illnesses, the development of sports facilities at the workplace and trade union representative activities, such as the celebration of a national brewers' day and national holidays.

³² Source: Nadezhda Daskalova, Institute for Social and Trade Union Research (ISTUR)

The project was implemented by the UK and Belgium in cooperation with the Bulgarian Ministry of Labour and Social Policy and the social partners.

Also in October 2006, the Economic and Social Council of Bulgaria and the European Economic and Social Committee organized a conference on the European social model and the particular challenges facing Bulgaria. The topics discussed included corporate social responsibility, the role of the social partners and the national labour market situation. The key findings of the conference demonstrated that in Bulgaria there is a need to develop a dynamic and flexible social and civil dialogue based on the values of the European social model. At the same time the challenge of EU integration requires rapid and adequate restructuring of the education and training systems.

TNT Bulgaria



TNT Bulgaria is an active member of the Bulgarian Business Leaders Forum (BBLF) and is also involved in the UNDP-Global Compact project, dedicated to creating good corporate citizenship and the level of involvement of senior management in CSR issues. TNT Bulgaria was among the establishers of the UN Global Compact in Bulgaria and has been taking part in the Waste Management Initiative by setting up their own 'paperless office' initiative. The company has implemented a Health and Safety Management System that deals with the safety at work as well as with environmental issues. As an 'investor in people' the company is committed to personal development and ensures that everyone has equal opportunities for training. The equality of employment is also guaranteed by the Equal Opportunities Policy, which states that neither managers nor employees will practice any form of unfair discrimination against each other, customers, suppliers or communities in which TNT works, on the grounds of gender, marital status, race, nationality or national origin, ethnic origin, colour, creed or disability. For three years, TNT Bulgaria has been actively participating in the 'Career Advice Project', which helps young people to dip into the business environment. In February 2003 a HR Workshop was held for students from the New Bulgarian University.

TNT Bulgaria is the first company in Bulgaria awarded the Social Accountability Certificate. It is also one of the first private companies in Bulgaria certified under the ISO 9001:2000 certificate as well as a proud holder of the 'Investor in People' certificate.

Danone Bulgaria wins employee engagement award³³



Danone, the French food group, has received an award from IBLF's ENGAGE programme for the employee engagement programmes that it operates in its Bulgarian division. The ENGAGE Award was presented to Danone as part of the Bulgaria Business Leaders Forum's Annual Awards ceremony in Sofia (2005). The Bulgaria division won the ENGAGE Award for the diversity of the different methods it uses to encourage employee engagement. Danone developed an internship programme for teenagers from a local orphanage, which resulted in three participants being offered local jobs. With the help of more than 50% of its employees, Danone organised a Children's Day for the patients of a children's hospital in Sofia. And the Danone Smile Makers project helped to re-launch a new Danone brand, with the entire sales and marketing team getting involved in five projects in Plovdiv that were aimed at making the people of the city smile. "The entry shows all the ingredients of an exemplary programme that is tailored to the needs of the business and the different ways that employees may want to be involved," said Amanda Bowman, director of ENGAGE, at a presentation ceremony in Sofia. The award was presented to the country manager of Danone Bulgaria, who stated that the impact of the company's employee volunteering programme had been enormous for employees, business and the community. Around 250 guests including Bulgaria's Deputy Minister for the Economy attended the presentation ceremony for the BBLF Awards. The Awards were established in 2003 to mark the organisation's fifth anniversary. Other award winners at the ceremony included Overgas, Microsoft Bulgaria, Job Tiger, Nestle Bulgaria and Ecopac.

6.1.3. Environmental Responsibility

³³ Contact: Amanda Bowman, director, ENGAGE, email: amanda.bowman@iblf.org

Like other countries of the former **Warsaw Pact**, Bulgaria's economy strongly focused on heavy industry and intensive agriculture, but did not mitigate the environmental consequences of such a policy. As a result, in the early 1990s fertilizers polluted an estimated 60% of agricultural land and pesticides and two-thirds of primary forests had been cleared. Although environmental awareness improved in the post-communist era, the state's lack of administrative strength and fears of unemployment prevented the curtailment of many dangerous practices. Therefore, in the mid-2000s Bulgaria still faces severe environmental problems, such as air pollution from industrial emissions, the inability to filter effluents into rivers, diminishing natural forest cover and damage from air pollution and resulting acid rain, or soil contamination by heavy metals resulting from improper industrial waste disposal. The agency responsible for protection against all forms of environmental pollution is the Ministry of Environment and Water.

Energy Agency of Plovdiv (EAP)

The Energy Agency of Plovdiv (EAP) has been the first energy management agency to be established in Bulgaria under the SAVE II programme of the European Commission. Set up in 2000, the agency has been a great success for the Bulgaria as well as for the entire CEE region. It promotes energy efficiency and the use of clean energies, and identifies and develops projects in this field. The mission of EAP is to encourage more efficient energy use in Bulgaria and the development of renewable sources of energy in the process of helping the nation meet important EU membership criteria. The activities of EAP include: performing energy-conservation audits for factories and buildings; providing education and training on energy conservation; carrying out a public information campaign on energy conservation, hosting exhibitions and securing publicity; acting as a source of information on energy conservation, including the creation and maintenance of a database.

Energy efficiency (EE) is a relatively new concept in Bulgaria, where supply side issues used to nominate the national agenda. By promoting energy consumption issues and by showing ways companies and communities to improve their energy management, EAP has succeeded in shifting the focus to the demand side of energy.

Above all, EAP is engaged in increasing awareness, promoting its work to the public via the media and to the business community via workshops and information seminars. As a result of these efforts, several local companies have decided to conduct energy studies. Furthermore, the development of a municipal, integrated energy plan has been started and an energy-monitoring programme was launched in 51 schools. Case studies, fact sheets, brochures and information materials have been developed and disseminated in order to increase local capacities in the field of energy conservation and renewable energies.

Furthermore, EAP has completed several industrial energy efficiency projects with total annual savings amounting to 170,000 tons of CO₂. The recently created Plovdiv Energy Efficiency Zone comprises a portfolio of eleven industrial energy efficiency projects with an annual savings potential of about 30,000 tons of CO₂ and several municipal energy conservation projects with an additional annual savings potential of 200,000 tons of CO₂.

One of the most successful activities of EAP is promoting renewable energies sources (RES). EAP has published catalogues on energy efficiency and renewable energy technologies as well as on prospective Bulgarian RES projects. Furthermore, EAP carried out studies on local RES potential. Recently, EAP has packaged several new renewable energies projects, among them six small hydro plants, one biomass plant for composting mixtures of industrial paper and animal wastes as well as three solar thermal installations for a large-scale integrated sustainable energy community in Bulgaria. This project comprises regional cooperation, integrated planning, energy studies, monitoring of community performance indicators, energy consultancy, community capacity building and demonstration projects.

In many of its projects, EAP is cooperating with other agencies and institutions. EAP has initiated the establishment of an association of SAVE agencies in Bulgaria, which began operation in 2002. It has also inspired the creation of the National Association of Independent Energy Producers (NAIEP) in Plovdiv. In cooperation with other institutions, various workshops for exchanging information, a partnership programme and the launch of a project on an environmental and energy skills programme for Bulgarian hotel managers and building engineers are some of the outcomes of this fruitful cooperation.³⁴



³⁴ European Federation of Regional Energy and Environment Agencies (2003)

Vidima

Vidima is one of the most prosperous businesses in Bulgaria, established in 1934 by enterprising citizens as a co-operation for tin ware production. Today the company is a leader in the production of bathroom fixtures and accessories. It has been a model of success in Bulgaria's transformation to a market-based economy. Vidima is the first company in Bulgaria certified ISO 9001, ISO 14001 and OHSAS 8001. It has adopted the corporate culture - to produce high quality products under healthy conditions of work while preserving the environment. Huge investments have been made in machines and equipment, which are to guarantee the preservation of the natural resources and the health of the employees.

The Standard for managing the environment, incorporated by the company, allows to determine the aspects of the impact on the environment and to develop mechanisms for control and prevention. Vidima's ecological policy involves:

- Preparation of investment programmes that ensure stable and nature-friendly production activities;
- Maintaining the Company Register of Regulations on Environment, which is available to the company management and allows to track new developments;
- Exclusive use of chemicals supplied with an information card by the manufacturer;
- Close control over each waste emission and control audits by external specialists;
- Carrying out daily audits of production processes, including records of ecological deviations;
- Receiving of a Complex License, an award of the Ministry of Environment and Waters for environment friendly production activities;
- Effective management of the environment with priority given to organic emissions and waste resources management. The company has a Wastes Programme in place, which involves all kinds of production and life wastes, their separated collection, specific containers locations for waste collections
- Continuous Improvement of ecological activities in the company following the procedures and requirements of ISO14001;
- Training of personnel in labour safety and protection of the environment.³⁵

6.2 SMALL AND MEDIUM SIZED ENTERPRISES

Small and medium-sized enterprises account for 99 percent of total Bulgarian enterprises and the role in terms of their contribution to employment, turnover, value-added, exports and imports has gained more and more importance in recent years. Those businesses generate 79 percent of employment, 75 percent of the turnover and 61 percent of the value added of the private sector. In addition, they contribute with 54 percent to total exports and 73 percent to imports of private businesses. SMEs are most active in the area of trade and repair of motor vehicles, manufacturing, hotels and restaurants, and real estate, renting and business activities. Female entrepreneurs and managers in Bulgaria account for approximately one third of total entrepreneurs. More than 60 percent of them have higher education – a value that is higher than the average percentage for most European countries.³⁶

In recent years, strong efforts to improve the institutional and legal environment for business and entrepreneurship in Bulgaria have been made. However, survey findings demonstrate only some slight improvement of SME managers' assessments of the business climate after 2002. Entrepreneurs still face severe problems with starting up and doing business in Bulgaria. Existing barriers, such as administrative instruments regulating business activity (mainly registration and licensing regimes), still negatively influence SME market entry and exit dynamics.

So far, a number of regulations aiming to restrict unreasonable state intervention in business activities and to liberalize market relations have been passed, most notable in the area of reforming registry procedures. A lot of public and non-governmental organizations provide assistance to SMEs in Bulgaria. The new Executive Agency for Promotion of Small and Medium Sized Enterprises (BSMEPA) was institutionalized in September 2004 and is the main entity for coordinating and implementing the policies and programmes for SME promotion and development. It also offers consulting services in the fields of human resource policies, innovations, quality improvement and environmental protection, amongst others.

³⁵ Source: Bulgarian Business Leaders Forum

³⁶ Bulgarian Ministry of Economy and Energy (2005)

The 'Annual Report on the Condition and Development of SMEs in Bulgaria 2004'³⁷, prepared by the Bulgarian Ministry of Economy and Labour, outlined the following basic recommendations for strengthening the role of SMEs in the economy and successfully coping with the competitive pressures on the international market:

- Improving the business climate by optimizing regulatory regimes and promoting market competition;
- Improving the access of SMEs to finance, including through the National Guarantee Fund and municipal guarantee funds for promotion of SME development at local level;
- Enhancing the qualification of the central and local administration to support SMEs and improve the quality of information and consulting services provided to these companies;
- Creating an integrated database containing information on the condition and needs of the SME sector and on existing programs in place;
- Implementing a proactive policy for technological upgrade of production through closer cooperation between companies and research institutes;
- Supporting the implementation of international quality and environment protection standards;
- Enhancing the capacity for development of end products, which are competitive on international markets, and specialization in the production and export of high value added goods;
- Implementing targeted human resource policies and training for entrepreneurship;
- Making sustainable development a component of the enterprise policy;
- Creating conditions for improved draw of money from EU's structural funds;
- Applying cluster approaches in sectoral and regional development.

As Bulgaria just entered the European Union, the competitiveness of SMEs is increasingly in the focus of attention. In general, Bulgarian SMEs are classified as low performing and under-competitive on the international market place. The insufficient level of preparedness of SMEs to operate successfully in the Single European Market is reconfirmed by a number of surveys. In the first place there is the issue of the level of awareness among SMEs, as the overall EU trade policy remains to a large extent outside their scope of knowledge. The understanding of separate components of this policy is fragmentary and provides no long-term vision. However, an increasing number of Bulgarian SME managers are beginning to realize that EU membership requires investment in new processes and technology, in high quality products and environmentally friendly production processes in order to improve their competitiveness. The following factors were identified as having the greatest potential for enhancing the competitive position of SME: introducing ICT and building innovative capacity, improving management and marketing strategies, implementing adequate human resource and environmental policies, targeted preparation for accession to the EU, and participation in cluster networks. In these areas strong support from the government, business associations and the other non-governmental organizations is needed. SMEs also perceive the introduction of international quality standards as a necessary precondition to survive on the market and to improve their competitiveness. Of all activities related to the preparation for EU accession, improving quality control receives most attention and many companies are currently working in that direction.

6.2.1. CSR in Small and Medium Sized Enterprises

6.3.1.1. Quality Standards

In general SMEs find it difficult to develop and introduce quality management systems due to limited capacities. Less than 1 percent of Bulgarian textile and garment companies, for instance are certified for ISO 9001 and only about 5 percent have their own trademark³⁸. At the present stage of economic development, enterprises in Bulgaria need to form close cooperation involving production companies, branch organizations, research and educational institutes, and representatives of local and the central authority in order to achieve high quality standards.

6.2.1.2. Environmental Management

³⁷ Bulgarian Ministry of Economy and Energy (2005)

³⁸ Premyana Bulgaria: A joint initiative of the Bulgarian government and the Bulgarian textile and sewing sector 2004

With regard to the environmental performance of Bulgarian SMEs, EU policies are being applied at national level, aiming to improve the level of awareness with respect to environmental legislation and SMEs' pro-active attitude to the preservation of natural resources. The Operational Programme on Environment 2007-2013, which sets the priority activities in this area, gives special attention to the monitoring of SMEs and achieving environmental compliance.

Although national legislation focuses on the nature and magnitude of environmental pollution and not on enterprise size, some specific rules were introduced in the SME sector. In the field of waste management in particular, some preferential terms for smaller companies are envisaged³⁹: SMEs are exempt from responsibilities related to reporting and information on the composition of packaging materials: the concentration of heavy metals, the content of hazardous substances, and the quantity of packaging considered hazardous. Furthermore, smaller businesses are exempt from filing annual reports on the implementation of the above-mentioned Ordinance and from providing information on the implementation of waste recycling targets.

The schemes most frequently used by SMEs to achieve environmental compliance in accordance with EU requirements are so-called voluntary mechanisms. The National Environmental Management and Audit Scheme⁴⁰, for instance, was adopted in response to EU regulations encouraging the voluntary participation of firms in the environmental management. It is a scheme for organizations accepting to independently assess, improve and report on their progress in the implementation of environmental requirements. SMEs agreeing to implement environmental management and emission control systems are given preferential treatment on reporting the results of intra-company monitoring and the reporting deadlines. The National Eco-Labeling Scheme is an instrument that allows companies to label and distinguish their product on the market in terms of its environment-friendliness. Even though by its nature it is a mechanism mostly intended for SMEs their level of awareness of the opportunities provided by the national scheme is very low⁴¹.

As of October 2005 there were 31 organizations and companies in Bulgaria certified for ISO 14001:1996, of which around one-third are SMEs. Certificates OHSAS 18001 containing environmental management commitments alongside occupational health and safety management systems were granted to 16 companies (including only few SMEs). There are several factors, explaining why smaller businesses seem to be reluctant to implement integrated environmental management systems, such as the lack of resources, know-how and capacities and the low level of motivation among managers. Apart from that, there is no system of financial or other incentives in place that favours companies certified for environmental management, and mechanisms for providing loans to SMEs are also not in favour of stimulating the introduction of environmental standards.⁴²

6.2.1.3. Energy Efficiency

Energy efficiency is regarded as another crucial aspect for improving the competitiveness of SMEs in Bulgaria. Lowering consumption directly translates into reducing the costs of production and achieving lower end prices and therefore constitutes an excellent business case. Special programmes to be mentioned in that context are the National Energy Saving Programme, the Three-Year National Action Plan, and the establishment of an Energy Efficiency Fund⁴³.

6.2.1.4. Corruption

According to studies conducted by 'Coalition 2000' and 'Vitosha Research', the corruption environment in the country worsened in the course of last year⁴⁴. The number of corrupt transactions shows an increasing tendency, with the average monthly number exceeding 103.000 (against 80.000 in 2004). The value of the corruption deals increases as well and the findings show a shift to larger bribes. Furthermore, corruption pressures at local levels augment among municipal officials, councillors and

³⁹ Ordinance on packaging and packaging waste, Council of Ministers Decree No 41 of 26 February 2004, am. OG No 104 of 2004, am. 15 July 20

⁴⁰ Decree No 61 of the Council of Ministers 12.03.2003, in force since 22.09.2003 am. No 31 of 4.04.2003

⁴¹ The eco-labeling under the national scheme will be an additional advantage for companies as a new EU Directive on products eco-design entered into force in 2006.

⁴² In the loan requirements of commercial banks for SMEs no criteria for an ISO 14001 certificate are included.

⁴³ For more information, see <http://www.abcdesign-projects.info/beef/display.aspx>

⁴⁴ Coalition 2000 (2005), Corruption Monitoring System (CMS)

mayors most probably related to the process of decentralization and redirecting larger financial resources to the local authorities. In the Global Competitiveness Report 2005-2006⁴⁵, Bulgaria is ranked 38 in terms of corruption dissemination, which marks a retreat from the position in previous years. The findings give a clear signal that the problem of corruption is a serious one in Bulgaria. As such it was also described in the monitoring report of the European Commission,⁴⁶ which identified corruption as an area of concern and requested immediate actions from the government.

However, according to a sociological survey conducted in 2005 by the Center of Economic Development⁴⁷, 40 percent of the surveyed SMEs in Bulgaria perceive corruption to be within 'comparatively tolerable limits'. Only less than 1/5 believe that corruption levels are excessively high. Moreover, entrepreneurs do not place corruption among the three biggest obstacles for businesses and the citizens, which are rather high unemployment levels, poverty and lack of loyal competition. One of the problems that make the fight against corrupt practices difficult is that such behaviour is to some extent well accepted among entrepreneurs. Therefore it does not come as a surprise that counteraction to corruption does not seem to be of notable interest to the business community. Entrepreneurs in general do not have a clear strategy to fight corruption in their business operations and are reluctant to participate in initiatives directed against it. Only 2.9 percent of the survey respondents have engaged in such activities.

The main generators of corruption in the view of business leaders are imperfections in legislation and frequent changes of laws; lack of strict control of the activities of government and municipal administration; existence of many regulatory regimes that impede business and encourage the search for 'alternative ways' to solve problems; applying 'double standards' as to smaller and larger companies; inefficiency of the judicial system; and incompetent administration. According to SMEs, the most effective method to curb corruption would be to make the judicial system more efficient and imposing stricter punishments on parties involved.

<p>In 2006, the Center for Economic Development (CED) in Bulgaria started to work on a project on <i>Involving Small and Medium Business for Active Counteraction to Corruption</i>. The initiative is carried out with the financial support of the European Union within the framework of the PHARE Program 'Civil Society Development 2002'. The overall goal of this initiative is to involve representatives of SMEs, in partnership with NGOs, industrial associations, governmental and municipal authorities for joint actions in curbing corruption practices and creating intolerance to corruption at municipal and governmental levels. In specific terms, the project aims at:</p> <ul style="list-style-type: none"> - Revealing the nature and causes for corruption practices among small and medium businesses; - Realizing the role of SMEs in the fight against corruption and stimulating their interest to implement anti-corruption measures; - Provoking intolerance among smaller businesses against corruption practices; - Activating their readiness to uncover corruption practices at local and national levels; - Development of partnerships among different associations and organizations of SMEs, NGOs, governmental and municipal institutions; and - Assisting and deepening the public discussion about corruption practices and their specifics both in relation to SMEs, and sector or region-dependent of the enterprises. 	
<p>CED partners are the National Association of Small and Medium Business and the National Business Development Network.</p>	

<p><i>Pain D'Or (Industrial Bakery)</i> Pain D'Or employs more than a 130 people, the majority women. This year, five deaf boys and girls started to work at the factory. Furthermore, the company management appointed a physician to examine its employees (and their children) on a monthly basis. In order to enhance transparency and keep staff informed, all board decisions are posted on a bulletin board. Company leaders take the time to speak with employees and explain the reasons why a particular decision has been taken, and how their rights have been protected. Education is a vital part of the Pain D'Or's corporate culture. People are encouraged and supported in</p>	
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⁴⁵ World Economic Forum (2005)
⁴⁶ European Commission (2005)
⁴⁷ Center of Economic Development (2005)

learning foreign languages, in attending professional seminars abroad, and in keeping up with the latest ingredients and technologies in the industry. Pain D'Or organizes trainings both for its employees and for the employees of its clients – McDonald's, Fantastico, Billa, Shell, etc.

To reduce pollution, the company stopped using diesel fuel in the bakery and entirely shifted to electricity. They do not use chemicals or ingredients from genetically modified organisms in their production.

Pain D'Or is well known for its ongoing contribution to the community. The company regularly distributes bread to orphanages, to the kids in the playground near the factory, and to disabled and socially challenged people. Pain D'Or also participates in the organization of sports events, including the street basketball tournament and a drawing competition, sponsor municipality events and help mending and cleaning the streets near the factory.

In September 2001, Pain D'Or was the first and only bakery in Bulgaria to be ISO 9001 certified by SGS (General Society of Surveillance). The company officially joined the Global Compact in November 2002.

6.3. CSR INITIATIVES

6.3.1. Bulgarian Business Leaders Forum (BBLF)

The Bulgarian Business Leaders Forum is a business association that promotes corporate social responsibility in Bulgaria. Founded in November 1998, the BBLF has now over 220 members - both Bulgarian and international companies. The objectives of this Forum are to promote socially responsible business practices that benefit business and society; develop projects and programmes to show how business, government and civil society work together in this field; help leverage resources to bring partnership projects to scale and maximise impacts; share ideas, information and experience of socially responsible business practices and partnerships at local and international levels to encourage replication; and build leadership and management skills in the field of CSR.

The forum's first event to raise awareness of CSR was an event titled „International Hotels Environment Initiative (IHEI)“, which took place in November 1999. The initiative aimed to raise awareness and facilitate the process of harmonisation of the Bulgarian legislation with the EU Standard ISO 14001, the international standard for environmental management systems. The initiative was supported by the IBLF, the Hungarian Hotel Association, Kempinski Hotel Zografski and the Sheraton Balkan Sofia. The IHEI resulted in a joint Environment and Waters Ministry- / BBLF-instituted annual award for the hotel having the best environmental practices in place.

In October 1999, it launched the Code of Business Ethics project. The BBLF Business Ethics Standard was introduced three years later as a set of 10 principles of good business conduct, aiming to have businesses voluntarily agree to socially responsible business practices. Since its creation, more than 1200 companies have signed the declaration.

The publication “Responsible Business Directory” was prepared in partnership with the UNDP and the Bulgarian Charity Aid Foundation with the aim to present business in a different light and to advertise Bulgaria as a fast growing market, governed by the rules of business ethics and fair competition. The Directory contains profiles of 70 local and international companies including contact details, present CSR activities, and information on the companies' principles and codes of ethics. The publication was distributed among Bulgarian and foreign partners of the BBLF and the UN Global Compact, as well as among all Bulgarian embassies and trade representations abroad.

Other BBLF initiatives include business master classes, the annual Business Leaders Olympics and the HE+AL (Healthy Eating and Active Living) school partnership programme

6.3.2. Bulgarian Global Compact Network

The Global Compact network was launched in Bulgaria in January 2003 and has brought together more than 120 members. It can be regarded as an informal assembly of companies, NGOs and academia engaged in the Global Compact and CSR that strive to learn from each other, to communicate, to generate an impact and initiate a dialogue or partnerships with other actors such as the government, local authorities, labour organisations, civil society organizations and academia. In order to strengthen and enhance the role of the Network in Bulgaria a governance framework consisting of an Advisory Board and a Secretariat has been established in 2006.

The project "Sharing and Partnering for Applying the UN Global Compact principles in Bulgaria" was initiated in 2005. Its aim was to establish the governance structure of the Global Compact's network, to strengthen the role of this local network and enhance dialogue among GC stakeholders for effective exchange of best practices and lessons learnt. The project implemented three main initiatives:

Travelling seminar: As part of its effort to encourage knowledge sharing and partnership building to implement the GC principles, a travelling seminar was organized for twenty member companies. The seminar sought to introduce participants to examples of leading socially responsible companies in Bulgaria and to help identify the development needs of several municipalities. The first stopover of the seminar was hosted by Cumerio Med⁴⁸, a copper producing company with operations in copper smelting, refining and recycling.

Global Compact Network retreat: In February 2006, a one-day retreat was dedicated by the GC members to brainstorming and discussing ways to strengthen and further develop the network. In an open exchange of opinions the participants adopted a framework on the governing and organizational principles of the national network and discussed also future joint initiatives in response to the tenth principle on anti-corruption.

Global Compact +3 National Forum Businesses against Corruption: the forum served as the official launch of the tenth principle of the UN GC Initiative and gathered over 180 participants from the private sector, government, NGOs, business associations and media.

The initiative for the establishment of a National Global Compact Network and the organization of the National Forum Global Compact +3 was carried out in partnership by the Bulgarian International Business Association (currently the Confederation of Employers and Industrialists in Bulgaria), the Bulgarian Business Leaders Forum, UNDP, the National Association of Municipalities in the Republic of Bulgaria, and the UN GC Headquarters in New York.

6.3.3. Club 9000

The association "Club 9000" is a non-profit nongovernmental organization, established in 1991 to speed up the harmonization of the activities related to the Quality Management in the Bulgarian organizations with the internationally accepted practices embedded in global standards such as the ISO 9000 series. The number of its members already exceeds 450, including almost 120 juridical persons. The activities of the Association include also the Environmental Management Systems, as the principles of quality management are embedded in the international standards of the ISO 14000 series. The "Club 9000" aims to follow the development of the activities of international organizations in these areas and to provide in time the necessary information to its members. It further facilitates the accumulation of knowledge for execution of practical activities and assists companies in developing and implementing such systems, conducting internal audits and solving specific practical problems. In addition, the Association organizes seminars, conferences, meetings and various scientific and technical events with the participation of leading Bulgarian and foreign experts, as well as training for managers and specialists in the practical application of new approaches and requirements for acquiring a certain qualification.

6.3.4. Integra Bulgaria

Integra Future started operations in July 2000 with the objective to lay a foundation of integrity for the business community in Bulgaria, focusing mainly on small and medium sized enterprises. Since then, more than 276 business owners from 14 cities across Bulgaria have been trained in essential skills to run their own business. In autumn 2001 Integra began to implement the Coping with Corruption project for SMEs in Bulgaria, attempting to provide practical help to this complex problem.

Additionally, Integra developed an innovative program to equip teenage orphans with the skills they will need to get a job or start a micro-enterprise. The initiative focuses on orphans between 16-18, who are helped through a yearlong training process to prepare for independent life. Integra small business

⁴⁸ In Bulgaria, Cumerio Med was among the first industrial companies to obtain in June 2005 an Integrated Pollution Prevention and Control (IPPC) Permit. The Permit takes into account the environmental norms adopted by the Bulgarian authorities in anticipation of EU accession. It aims at realizing a system for more efficient control and prevention of any kind of emissions into the air, water and soil.

clients in Bulgaria have volunteered to hire these "orphanage graduates" to allow a first experience of holding a job.

6.3.5. Bulgarian Energy Efficiency Fund (BEEF)

The Bulgarian Energy Efficiency Fund was established in February 2004 with the main objective to facilitate energy efficiency investments and promote the development of an energy efficiency market in Bulgaria. To this end, BEEF supports the identification, development, and financing of viable energy efficiency projects implemented by Bulgarian private enterprises, municipalities and households. The underlying principle of BEEF's operations is a public-private partnership. The Fund pursues an agenda fully supported by the Bulgarian Government but is structured as an independent legal entity, separate from any governmental agency or institution.

The fund finances:

- Investments in improved energy efficiency in industrial processes;
- Rehabilitation of buildings in all sectors;
- Improvements to the heat source and distribution system;
- Rehabilitation of municipal facilities (e.g. street lighting); and
- Other energy end-use applications.

6.3.6. Bulgaria Economic Forum (BEF)

The Bulgaria Economic Forum is an organization, founded in 1998 by Bulgarian and international private companies, national state institutions and NGOs with the main objectives to promote the business environment of Southeast Europe as a favourable place for potential foreign investors and to facilitate the dialogue between the government and the private sector. The basic objectives of the forum are to promote Bulgaria's investment environment to foreign investors; to inform the Bulgarian society about the business climate and the problems that the investment process faces in the country; to help state institutions in the field of privatization; and to unite the intellectual, industrial and professional potential of the country in search of new possibilities for promoting investment.

The basic aims of the Bulgaria Economic Forum include:

- Organizing the annual Southeast Europe Economic Forum;
- Organizing conferences, seminars and workshops to promoting the business climate in the country;
- Publishing newsletters, brochures and analyses;
- Arranging meetings with foreign investors established in Bulgaria and those with potential interest;
- Maintaining relations with representatives of international institutions, government officials and public organizations;
- Developing a promotional policy and advertising campaigns, targeting international business;
- Consulting on legislation related to foreign investment.

7. ROMANIA

7.1. CORPORATE SOCIAL RESPONSIBILITY DEVELOPMENT

In recent years, the concept of CSR has slowly spread among businesses. As in many transition countries this was primarily the result of multinationals introducing ethical business principles. Even though the standard CSR terminology and language is not universally understood in Romania, issues such as health and safety, fair working conditions, environmental protection and community engagement are common public concerns. The interest in these subjects is high – over 5.000 people were involved with the annual Romanian CSR awards program 2005, including 18 ambassadors and the deputy prime minister.⁴⁹

More information on the state of CSR in Romania can be found in section 8., which describes the results of a World Bank survey among Romanian business leaders to identify private sector perception about CSR.⁵⁰

7.2. SMALL AND MEDIUM SIZED ENTERPRISES

The improvement of the business environment and entrepreneurial culture in Romania is said to be one of the major directions of the government's strategy in terms of SMEs development. One of the measures taken to achieve its objectives is a large-scale promotion of the so-called self-regulating process, referring to the development of business ethics codes and codes of conduct. Although certain pilot initiatives are already in place, there is still a very strong reluctance with regard to the necessity of such codes, their implementation and monitoring. Part of the confusion is created by the difficulty to understand the difference between business ethics codes and corporate governance codes. The first focuses on individual voluntary regulation and on the shaping of the behaviour of management and employees and their relations with public authorities, consumers and other stakeholders (suppliers, creditors, competitors, etc). Under a self-regulating policy, rules are identified and adopted not as a result of law enforcement, but on the basis of a mutual agreement. The voluntary nature of the application of ethics codes requires huge consultation efforts on how to develop and implement standards and principles so that they become sustainable. Reasons for the slow development of business ethics codes are a general isolation of most companies and a low participation in associations⁵¹, a non-transparent business environment and lack of systematic guidance for the development of a value-based economic system.

In Romania, good practice case studies in terms of self-regulation provide the business ethics code passed by the members of the Chamber of Commerce and Industry in Bucharest and Romania (CCIBR) and of the National Council for Small and Medium Sized Enterprises of Romania (NCSMER).

ENTERPRISE'S CODE OF ETHICS

Prepared by the National Council for Small and Medium Sized Enterprises in Romania

Mission:

The level of personal satisfaction and the level of profit represent the basis for starting a business. The private enterprisers' conduct in business must be based on strong principles that create relations based on trust, discipline and integrity in the business environment and raise people's awareness of various problems in the community and in the environment.

1. General principles:

- To trust oneself and the business environment; to believe in honesty, loyalty and fairness;
- To keep promises, to admit when making a mistake and to correct the mistakes made;
- To objectively understand and interpret the phenomena in the social and economic life, in order to develop a healthy business environment.

2. Relation with the members (the company's associates/shareholders):

⁴⁹ Brady (2005)

⁵⁰ World Bank (2005)

⁵¹ A NASMEC' survey published in „Health and Needs of SMEs” in 2005, shows that only 1/3 of the interviewed SMEs were actually members of a business organization.

- To respect the rights of and to protect the interests of associates and shareholders, including those of minor associates/shareholders; to inform them correctly on company matters.
- To provide confidentiality of the information obtained through business relations.

3.Relation with the business partners:

- Reliability and consideration towards business and social partners;
- To cultivate respect towards all the partners and to neutralize disloyal and incorrect methods of operation towards them.
- To prevent, to not get involved or to avoid actions that may favour corruption.

4.Relation with the employees:

- To treat each employee with dignity and respect, regardless of his/ her position and responsibilities in the company;
- To promote and maintain a performance-driven working environment in order to improve the employees' professional training;
- To develop a system of salary policies meant to reward the employees' performance.

5.Relation with the competition:

- To promote loyal competition in business relation-ships.

In 2004 there were almost 403.000 SMEs active in Romania, which reflects an increase of almost 24% as compared to year 1999. The most substantial share of SMEs can be found in the services sector (around 77.4% in 2004). The demand for business advisory services among Romanian SMEs is still low. More than 60 percent of these businesses have never made use of such services. If they do so, SME mostly make use of training services and of advice on functional areas of business activity such as finance, marketing, production or design. The share of companies that ask for assistance in the field of safety and quality standards or certificates is rather low, except in the construction sector where safety regulations are very tight. In 2004 the National Agency for Small and Medium Sized Enterprises and Co-operatives implemented a multi-annual programme for "Training and consultancy services for micro and small enterprises", as part of its effort to foster entrepreneurship, improve the business development services sector and enhance the competitiveness of SMEs. The programme supported SME access to consultancy services through the provision of grants up to 60% of the value of the services procured⁵².

CURAS Program – Increasing the level of quality assurance in SMEs from horizontal automotive industry and setting up supplier chains

This project, which resulted from a cooperation between the Flemish and the Romanian Governments, aims at raising the level of quality and setting up supply chains in the automotive industry in order to improve joint and individual performances at the regional, national and international level. Through knowledge and experience transfer and setting up of a supplier links, the Limburg Quality Management Centre (CKZ) and National Agency for Small and Medium Sized Enterprises in Romania seek to support local SME suppliers of automotive parts to consolidate their position, in the first phase, in front of Romanian automotive manufacturers and, after a period, to meet the needed requirements to perform outsourcing activities in foreign markets. Starting with January 2003 it focused on five areas:

- a) information and communication;
- b) training and skills;
- c) co-operation projects;
- d) marketing and public relations; and
- e) internationalization.

Direct beneficiaries are main and secondary suppliers of automotive parts and a cluster organization that will be set up through this project. SMEs that operate in this sector are in number of 230, employing around 3.900 people.

⁵² National Agency for Small and Medium Sized Enterprises and Co-operatives (2005)

7.3. CSR INITIATIVES

7.3.1. American Chamber of Commerce

One of the first initiatives to promote CSR concepts and practices in Romania was launched by the American Chamber of Commerce (AmCham) in October 2002 with the first edition of the CSR Conference held in Bucharest. The AmCham is a non-profit organization founded in 1993 by American investors in Romania, with membership open to American companies, multinationals and local firms having strong business ties with the United States. The Chamber has created a task force on Corporate Social Responsibility, which carries out a variety of activities in this area, and promotes changes in the legislative framework that would provide incentives and cost deductibility for sustaining an enhanced CSR involvement. Members aim at developing services for businesses, government and civil society organizations to stimulate CSR, and increase collaboration. The main purpose of the CSR Conference is to highlight the initiatives of AmCham members in the field of business ethics, to present international and European standards and to discuss the main trends in that area, as well as involving Romanian companies in common projects related to CSR. Besides spreading the information to a wide number of businesses, the conference has also contributed to bring the CSR issue on the public agenda, having as participants representatives of the central government who acknowledge the importance of integrating CSR into the way companies in the country operate. Furthermore, AmCham organizes the yearly 'People to People' national contest on best philanthropic and CSR initiatives and the 'People to People' award-giving Gala. The latter is organized in partnership with the Association for Community Relations and is dedicated to awarding the philanthropic contributions through donations and/or sponsorships, volunteering activities and fund raising projects. The first event was held in May 2003 and gathered over 100 nominated programs from over 80 companies.

7.3.2. Open Society Foundation

The Open Society Foundation was created with the objective to build and maintain the infrastructure and institutions of an open society. The Foundation works closely with the Open Society Institute to develop and implement a variety of programs that focus on civil society, education, media, public health and human rights as well as social, legal, and economic reform. Its strategic priorities are support for public service and accountability, fighting discrimination and forging models for community development and social inclusion, catalyzing and enhancing civil society activism and social research for better public policy-making.

One initiative promoting CSR concepts and practices in Romania was initiated in 2003 together with its partner, the Capital Magazine, a business oriented publication reaching approximately 60,000 people. The purpose of this project is to offer models and examples of best CSR practices to companies and business people and to stimulate business engagement in CSR related projects by highlighting their impact in the community and their benefits for all the parties involved. The Open Society Foundation prepares the articles on CSR for which the Magazine offers one page for publishing them, along with advice in terms of subject selection and editing support. The program has been recognized with the Jury's Special Award at the 2004 edition of the 'People for People Gala'.

7.3.3. Corporate Social Responsibility networks in Bucharest and Timisoara

In March 2003, representatives of 10 Romanian and international companies got together for the first time in Bucharest to start up a corporate social responsibility network in Romania. The objective of the meeting was to discuss the necessity of establishing local business-to-business coalitions to develop CSR projects in the country. In follow-up gatherings, the business plan for developing a business-to-business coalition was accepted and such partnerships were launched in two cities (Bucharest and Timisoara).

This project was initiated by a Dutch foundation called European Knowledge Exchange Forum (EUKEF), a network organization consisting of national and international specialists from the social and economic fields, which aims to promote CSR through training, workshops, study tours and consultancy. It also facilitates information exchange by promoting connections with other international

networks. To develop the CSR network in Romania, EUKEF worked together with the Ratiu Foundation⁵³ in Bucharest and Uniconnect⁵⁴ in Timisoara.

The above mentioned business-to-business coalitions have the objective to build partnerships between local authorities, the business community and the NGOs in order to develop CSR in Romania in a structural and integrated way. The tasks of the coalitions are to identify the local social needs; setting the agenda to address these identified needs and define the contribution of the companies; creating a local partnership between members of the B2B coalition and local government and non-governmental organizations; and carrying out a social intervention project that will improve the social situation of a group of people in the local community.

7.3.4. Pro Vobis National Volunteer Center

The Pro Vobis National Volunteer Center is an independent, non-profit organization working in Romania. Its mission is to promote and develop volunteerism as a viable resource in solving the problems of the Romanian society. The Center carries out several programmes focusing on services to promote the concept and practice of volunteerism in the country and to develop the necessary infrastructure.

The 'Win-Win Corporate Volunteerism Program' is one of the programmes developed by the Center. It consists of three main components.

- *Training of a team of brokers for engaging local companies in addressing local community problems.* The training session covered topics relevant to developing the skills of the trainees to promote both the concept and practice of corporate volunteerism. It gave an introduction to corporate volunteerism, the concept, key players; advantages for businesses, employees and the community; ABCs of building and evaluating an employee volunteerism project and the role of volunteer centres in the development of corporate volunteerism.
- The second component of the Win-Win Program was the *development of resources* to be used for promoting the concept and practice of corporate volunteerism. For that purpose several informative leaflets about CSR and corporate volunteerism were drafted and the web site for the program created⁵⁵. The web site is addressed to companies interested in developing corporate volunteerism programs, offering a wide range of information, resources, case studies and press coverage in Romania and worldwide. Another category of resources generated as part of this program consists of various practical guides and publications on how to develop corporate volunteerism programs, the steps to be followed and the advantages for all the parties involved.
- The third dimension of the Win-Win program is to *develop model community projects of corporate volunteerism* based on the expertise acquired by the trainees and the resources created in the project.

7.3.5. Bucharest Business Week

Bucharest Business Week is Romania's national English-language business newspaper. Every year it organizes a CSR event titled the annual Corporate Social Responsibility Awards Gala. Awards are given in various cities throughout Romania at ceremonies aimed at raising the profile of CSR activities in the country. At these events, Bucharest Business Week recognizes businesses, NGOs and individuals for their efforts in supporting important community programs, ranging from health to education to environment.

7.3.6. Responsabilitate Sociala

Responsabilitate Sociala was the first Romanian website dedicated to CSR. Its objective is to offer arguments to Romanian companies to invest in social and community development. On the website, visitors can find useful information on companies and their CSR strategies, case studies and theoretical resources about corporate social responsibility.⁵⁶

⁵³ Ratiu Foundation, based in Bucharest and existing since 1993, is an organization that promotes programs for the benefit of the local communities and services for deprived social groups. The Foundation is also providing training and technical assistance for NGOs, local authorities and public institutions.

⁵⁴ Uniconnect is a Dutch company which has as main target to connect Dutch and Romanian business.

⁵⁵ Web site: www.win-win.ro

⁵⁶ Available in Romanian language only (<http://www.responsabilitatesociala.ro/>)

7.3.7. CSR Romania

CSR Romania is an informative CSR web portal, which aims at promoting Corporate Social Responsibility in the country. It is the outcome of a cooperation between the Forum for International Communications and the Centre for Sustainability and Excellence (CSE). The purpose of this site is to inform, present and analyse the notion and the tools for proper management of CSR activities as well as the good practices that are already applied in Romanian and international companies. It further aims to share practical ideas and tools for the application and implementation of CSR into the corporate mission and strategy of organisations. The CSE also organized an introductory workshop on business ethics for the members of CSR Romania with interactive cases and practical examples.⁵⁷

7.3.8. Romanian Society for Quality Assurance (SRAC)

The Romanian Society for Quality Assurance (SRAC) is the most important certification body in the country. It aims at promoting a quality culture through information sharing, training and management systems certification. SRAC is a professional non-profit association and independent NGO, focusing on third party certification of management systems, in compliance with national and international standards. SRAC is the first Romanian body accredited for environmental management systems (ISO 14001) and occupational health and safety management systems (OHSAS 18001), and forms part of the International Certification Network (IQNet), the most important international group of certification bodies and the largest provider of Management System Certification services.

Certification services provided by SRAC include:

- Quality management systems certification (ISO 9001:2000)
- Environmental management systems certification (ISO 14001:2004)
- Food safety management systems certification (ISO 22000:2005)
- Occupational health and safety management systems certification (OHSAS 18001:1999)
- Information security management systems certification (ISO/IEC 27001:2005)
- Integrated management systems certification (quality - environment, quality – food safety, etc.)
- Conformity assessment services in the mandatory areas⁵⁸

SRAC also provides a complex range of training courses in the following areas: quality management systems, environmental management systems, occupational health and safety management systems, food safety management systems and information security management systems.

A cooperation agreement with the National Agency for Small and Medium Sized Enterprises and Cooperatives aims at fostering the improvement of the quality of products and services provided by SMEs. This agreement foresees the following joint activities⁵⁹:

- Development of the culture of quality as part of the wider entrepreneurial culture concept;
- Timely basis analysis of SMEs with regard to the evaluation of compliance and quality certification of the management systems;
- Providing information related to the applicable technical regulations;
- Joint development of projects;
- Editing specific publications, organizing seminars and a Quality Forum for Romanian SMEs; and
- Sharing of experiences and information.

⁵⁷ Available in Romanian language only (<http://www.csr-romania.ro/>)

⁵⁸ It shows the conformity of the product with the essential requirements of the European Directives (national technical regulations)

⁵⁹ Economic Commission for Europe (2004)

8. ATTITUDES ON CSR IN BULGARIA AND ROMANIA

The World Bank surveyed business leaders in Bulgaria, Romania and Croatia to identify private sector perception about CSR and the way it is practiced in these countries.⁶⁰ This research demonstrates that companies have a quite diverse and to some extent also limited view of what CSR entails. Responsible business behaviour is mainly associated with ethical conduct in operations, transparency, the establishment of stakeholder partnerships and compliance with existing laws and regulations. Environmentally friendly activities, by contrast, received a relatively low score.⁶¹ The social role of business in Bulgaria and Romania is seen in complying with corporate and product laws and protecting the welfare of employees. Providing job security and earning profits were also mentioned in this respect. Activities not so much perceived as part of a company's societal obligations are creating jobs, paying taxes and contributing to charities.

8.1. COMPANY STAKEHOLDERS AND ENABLING ENVIRONMENT

Most companies in both countries consider shareholders and employees as their main stakeholders. A significantly smaller percentage regards government and local communities as having a stake in their operations. These results suggest that companies in Bulgaria and Romania focus mainly on the internal aspects of their operations, referring to everything that is directly linked to their bottom line and employee welfare. The fact that external stakeholders are deemed far less important could be explained by factors such as the weakness of CSO and a tradition of limited empowerment of the civil society in general, which do not exert considerable influence on private sector activities. In addition, the declining role of governments in these economies as a result of the privatization process and market liberalization have contributed to such development.

The countries' enabling environments for promoting CSR are perceived as weak, in particular in Bulgaria, where more than half of the respondents do not believe that the government supports the implementation of socially responsible business operations and that current policies encourage companies to invest in CSR. In Romania the figure was lower (about one third).

The survey results further demonstrate that a majority of companies is convinced that an intensification of the multi-stakeholder dialogue would make CSR practices more relevant in their business operations. As cooperation between sectors is still a relatively new phenomenon in most of the CEE region. This requires initiatives supporting awareness raising on CSR among all parties involved and, in the longer term, also the institutionalization of such a dialogue.

8.2. BUSINESS VALUES AND TRANSPARENCY

Internal codes of conduct are one of the most spread tools used by businesses around the world to implement CSR policies. The survey shows that in Romania written codes are more common than in Bulgaria. Reasons for introducing such codes include the expectation of gaining a competitive advantage, aligning with business trends, improving risk management and complying with regulations. In Western European countries, companies started producing social and environmental reports due to pressure from stakeholders and the desire to avoid public scandals to inform. Voluntary reporting has become part of the operational culture of many companies all over the world – a trend, which is also evident to some extent among leading enterprises in Bulgaria and Romania. In Bulgaria, more than half of the surveyed companies publish annual financial reports and have introduced anticorruption policies. However, less than one third report on their environmental and social performance. Percentages for Romanian enterprises are slightly higher. In general, larger firms, both state-owned and private, as well as foreign companies are undertaking more systematic reporting and are more likely to incorporate social and environmental dimensions.

The findings suggest that the triple bottom line concept exists, but it is not very advanced in these countries. In order to achieve further improvement, governments need to make social and environmental reporting mandatory and raise awareness by providing clear reporting guidelines in that context, including best practice examples (initiatives that can be facilitated through NGOs and business associations). Apart from that, more attention needs to be given to the enforcement and further improvement of anticorruption practices in those countries.

⁶⁰ World Bank (2005)

⁶¹ The top 1.000 global enterprises that took part in another survey consider environmental management as an integral part of CSR

8.3. LABOUR AND EMPLOYEE DEVELOPMENT

Most of the surveyed companies in Romania and Bulgaria engage in good labour and employee development practices. They do so through introducing anti-discriminatory practices, training programs for staff, and good health protection schemes. Both countries are signatories to the main ILO conventions, but still face challenges in enforcing those.

8.4. SOCIAL PRACTICES

The overwhelming majority of companies invest in social programmes, primarily in the areas of improving the well being of employees and community development.

In Bulgaria more than 90% of the surveyed businesses offer social programs, mainly focusing on health, education, technical training and community engagement. The main beneficiaries of these projects are youth, the local community at large, indigenous people and ethnic minorities. In implementing social initiatives, companies often engage in ad hoc co-operations with municipal institutions, government agencies and other businesses. In Romania, the percentage of companies that involve in social activities is lower. The main partners for cooperation in that respect are municipal and community institutions, government agencies, civil society and representatives of other businesses.

The findings show that the two countries count with a broad involvement of businesses in a variety of social issues. While there is a long-standing tradition of corporate engagement in health protection and education in transition economies, community development appears to be a relatively new aspect of companies' social activities.

8.5. ENVIRONMENTAL PROTECTION

In terms of environmental protection, Bulgarian companies lag far behind developed businesses situated in Western Europe. Only 11 percent of respondents participate in external programs in that respect. Less than a quarter have recycling programs, and only 10 percent implement ISO 14000 norms. Romanian firms are performing slightly better (see also section 5.2.1.3.). Around 25 percent of companies report involvement in environment-focused initiatives. More than half of them recycle and around 25 percent implement ISO 14000 norms.

As both countries are in the process of adopting environmental regulations that are in line with EU requirements, the main challenge is now to make enforcement more effective, and create partnerships among stakeholders. Furthermore, tax incentives need to be in place, as businesses regard such a step as the most effective tool for adopting appropriate environmental management systems in these countries. Promoting green consumerism by main stakeholders could also play an important role in promoting more sustainable corporate policies in the future.

8.6. RISKS AND BARRIERS

One of the most problematic deterrents for business leaders in both countries constitutes their wrong understanding of what CSR entails. Managers still believe that expanding their CSR activities will raise costs, reduce profitability and increase regulatory interference. Much less risk is seen in quality, growing demands of stakeholders, declining productivity or loss in comparative advantages.

Important to mention in this context is that many business leaders see no risk in broadening the scope of CSR engagement under the right circumstances. Frequently cited barriers to CSR development are the lack of regulatory frameworks setting adequate rules and the cost of making changes in plant, personnel and practices in order to internalize corporate social responsibility. Many surveyed company managers also mentioned the lack of visible short-term results of their actions, linkages between actions and financial success, and adequate institutional arrangements and appropriate government leadership as impediments in that context.

8.7. DRIVERS

The most frequently mentioned external reason for implementing CSR practices is the improvement of a company's image and reputation. Internally, the belief that business ethics contribute to the longevity of businesses is the strongest motivator. Maintaining customer loyalty has relatively little impact on a company's decision to implement CSR, as customers in both countries tend to place little value on social and environmental performance in their buying decisions (the percentage of consumers placing importance on CSR in Western European countries exceeds 80 percent). Price still has the greatest

influence on consumers in Bulgaria and Romania. This partly explains why companies do not see improved financial results as a main driver for adopting CSR concepts. Therefore, awareness-raising activities among all stakeholders, customers in particular, are needed to further push CSR development in these countries.

8.8. MEASURES PROMOTING AN ENABLING ENVIRONMENT FOR CSR

Respondents' views are divided over whether current government policies encourage corporate social responsibility practices. Tax incentives are regarded as most important alongside other measures such as government regulations, dialogue with the public sector and civil society organizations, and subsidized interest rates. Direct governmental intervention is not perceived as supportive.

Comparison – CSR attitudes in Bulgaria and Romania

	BULGARIA	ROMANIA
Understanding of CSR	<ul style="list-style-type: none"> - complying with regulations - engaging in ethical conduct - maintaining transparency in operations <p><i>lowest scores: PR issues</i></p>	<ul style="list-style-type: none"> - engaging in ethical conduct - maintaining transparency in operations - assisting stakeholder concerns and establishing stakeholder partnerships <p><i>lowest scores: PR issues</i></p>
Perception of company's role in society	<ul style="list-style-type: none"> - protecting employees' health - complying with regulations - providing job security <p><i>lowest scores: contributing to charities</i></p>	<ul style="list-style-type: none"> - not using child labour - protecting employees' health - complying with regulations - earning profits <p><i>lowest scores: contributing to charities</i></p>
Type of dialogue viewed as important for CSR development	<p><i>Most Important: all stakeholders, business in the country</i> <i>Least important: CSOs</i></p>	<p><i>Most Important: all stakeholders, government</i> <i>Least important: business in other countries</i></p>
Percentage of companies with written Codes of Conduct	35%	75%
Reasons for having a Code of Conduct	<ul style="list-style-type: none"> - improved employee relations - better reputation 	<ul style="list-style-type: none"> - improved employee relations - better reputation
Transparency efforts	<ul style="list-style-type: none"> - publishing annual financial reports - explicit anti-corruption policy 	<ul style="list-style-type: none"> - publishing annual financial reports - explicit anti-corruption policy - consult with stakeholders
Areas of social involvement	<ul style="list-style-type: none"> - health - education - technical training - community development 	<ul style="list-style-type: none"> - education - health - technical training - community development
Main barriers to adopting CSR	<ul style="list-style-type: none"> - lack of legal framework - overall cost - lack of linkage to financial success - lack of visible results 	<ul style="list-style-type: none"> - lack of legal framework - overall cost - lack of visible results - lack of appropriate institutions
Main external benefits from adopting CSR	<ul style="list-style-type: none"> - improves image and reputation - preserves environment - contributes to sustainable development <p><i>lowest scores: political impact and intangible benefits</i></p>	<ul style="list-style-type: none"> - improves image and reputation - preserves environment - contributes to sustainable development - promotes solidarity in the community <p><i>lowest scores: political impact and develops client loyalty</i></p>
Main external benefits from adopting CSR	<ul style="list-style-type: none"> - competitive advantage - increased workers' loyalty - increased productivity <p><i>lowest scores: cost reduction</i></p>	<ul style="list-style-type: none"> - increased company longevity - increased workers' loyalty - increased productivity <p><i>lowest scores: improved finances and access to capital</i></p>
Actions deemed helpful to improve CSR performance	<ul style="list-style-type: none"> - tax incentives - increased stakeholder awareness - reporting regulations <p><i>lowest scores: government intervention</i></p>	<ul style="list-style-type: none"> - tax incentives - recognition - labour law reforms <p><i>lowest scores: reporting regulations</i></p>

9. SERBIA

9.1. CORPORATE SOCIAL RESPONSIBILITY DEVELOPMENT

In Serbia, the private sector basically does not have any strategic relationship with social issues and the link between business and the non-profit sector is particularly weak. In general, companies do not know how to strategically assume responsibility towards society and community and enter into relationships with other actors in that area.

In November 2004, a conference on the '*Concept of corporate social responsibility: Serbia and comparative experiences*' was organized by the Balkan Community Initiatives Fund, in partnership with Civic Initiatives⁶². The main objective of the meeting was to promote the concept and practice of CSR in Serbia and to discuss possibilities for further progress in that area. The discussions demonstrated that cooperation between profit and non-profit sectors in the country is on the very beginning stage and primarily based on ad-hoc actions and the support of specific projects. Steps that still need to be taken in order to promote and develop ideas of CSR include providing possibilities for information exchange between sectors, awareness raising among media to increase coverage on CSR, establishment of standards and procedures for cooperation as well as changes in legislation.

In April 2005 another conference on Corporate Social Responsibility was organized by the Foreign Investors Council of Serbia and Montenegro and the Swedish Embassy, in association with the Responsible Business Initiative, Serbian Chamber of Commerce, Serbia Investment and Export Promotion Agency (SIEPA), World Bank, EBRD, UNDP and the European Agency for Reconstruction. At this occasion the Serbian President Boris Tadic recognized the growing commitment of international companies operating in the country to invest in social and environmental programmes benefiting local communities. Foreign companies situated in Serbia dedicate significant human and financial resources to CSR programmes every year. It was announced that the Foreign Investors Council (FIC) in Serbia is about to form a CSR committee within its structure to actively support the implementation of community projects.

9.1.1. Survey Data

9.1.1.1. World Bank Survey on CSR in Serbia and Montenegro

Last year, the World Bank published a survey it conducted among 171 companies in Serbia and Montenegro on their attitudes towards CSR.

The findings show that most companies view customers, employees, shareholders and to some extent the government as their main stakeholders, whereas communities or CSOs were rarely mentioned.⁶³

A vast majority of firms link CSR activities to ethical behaviour and compliance with laws and regulations. Half of the surveyed companies regard transparency in operations as part of CSR. Environmentally friendly activities and addressing stakeholders' concerns are seen by one third of the respondents as socially responsible activities. A much smaller number believes that establishing stakeholder partnerships and the correction of social inequalities fall under CSR.⁶⁴ Very small companies associate socially responsible activities with addressing stakeholders' concerns less than other companies, as do small firms with respect to establishing stakeholder partnerships. On the other hand, all large companies believe that transparency in operations is a part of CSR.

⁶² Civic Initiatives is a Citizens' Association for Democracy and Civic Education, founded in 1996 by a group of prominent NGO activists that were involved in the anti-war movement and non-nationalist democratic opposition since 1990.

⁶³ State-owned and partially state owned companies consider the government to be a main stakeholder more than others. On the other hand, they do not consider shareholders as an important stakeholder. Compared to other sectors, financial services firms consider their customers to be their main stakeholders, whereas they consider their employees relatively less important stakeholders, as do very large companies. Interestingly, very large companies believe that the government falls into the group of their main stakeholders.

⁶⁴ State-owned companies more than others consider compliance with existing regulations as a socially responsible activity. Only a small percentage of financial service firms believe that addressing stakeholders' concerns is a CSR, but they, more than others, focus on correction of social inequalities.

Most companies see their role in society in relation to protecting the health of their employees, complying with regulations and avoiding the use of child labour. Slightly more than half of the surveyed companies believe that protecting the environment is their concern; financial services companies are by far the least convinced about this role.

Annual reports including information on company's environmental or social performance are published by only about a quarter of the respondents. Service companies tend to publish less than production firms, in particular in the non-financial sector.

Almost all companies have codes of conduct in place. However, only about half of those codes are in written. Most firms introduce such standards because they expect to improve the reputation of the company, enhance the compliance with legislation and create better relations among employees. Furthermore, many business leaders believe that such code improves the management framework, provides them with a competitive advantage, contributes to business sustainability, improves risk management, enhances access to new markets, builds better relations with the local community and saves costs. Slightly more than half of the respondent companies believe that having a code of conduct could lower pressures from business partners, enhance shareholder value and improve relations with the government.

About half of the surveyed enterprises have an explicit anti-corruption policy in place.⁶⁵ Very small companies are most receptive about this and include the largest number of companies who have or plan to have this kind of policy.⁶⁶

Explicit policies about freedom of association have almost half of the respondents. A slightly higher percentage disposes of explicit anti-discrimination policies for recruitment. The subgroups with the highest percentages are non-financial service companies, as well as small companies. Nearly all firms (in particular very large and state-owned companies) provide some form of training to their workforce.

Over the last three years, more than 80 percent of the surveyed firms engaged in social projects. This is done mostly due to a long-standing company tradition of community service, efforts to improve the image of a firm and cultural obligations to charity. Local brand recognition, improved employee relations, employee volunteerism and personal owner commitment do not play a strong role in the decision of companies to engage in social projects. Most companies collaborate with educational institutions and municipal institutions in that respect. About half of the respondents join forces with governmental institutions. However, retail companies, the heavy industry sector and smaller companies enter considerably less frequently in partnerships with the public sector.

Almost 70 percent of the respondent companies engaged in environmental projects over the last three years. The majority of those linked their projects to the company's operations, such as environmental education activities, environmental certification and environmental impact assessments (EIA). Only about one third of respondents have a recycling program in place (mainly production companies and large companies). Less than half has an environmental certification, in most cases ISO 14000. Environmental impact assessments are relatively widespread in Serbia, conducted by more than half of the respondent firms. Production companies are more responsible in this respect, especially in the heavy industry sector. EIAs are mostly conducted because of requirements in government regulations.

A significant majority of companies are familiar with at least one CSR standard or initiative. Most are aware of the ISO 14000 standard, while only half of that number knows about ISO 26000. These are followed by UN Global Compact, Global Reporting Initiative, OECD Guidelines for Multinational Enterprises, Green Tourism Business Scheme and Ethical Trading Initiative. However, only a minority of the surveyed companies is implementing some of the CSR standards or initiatives (only ISO 14000 is implemented by more than 10 percent). It was noted the application of CSR standards seems to increase as companies become larger.

⁶⁵ Financial services companies have fewer anti-corruption policies than any other sectors, but plan most substantial increase within the next five years.

⁶⁶ Serbia improved its rating on the Corruption Perception Index (CPI), developed by Transparency International. In 2005, Serbia had 2,8 points (on a scale from 1 to 10, where 10 marks absence of corruption and 1 a highest level of corruption). In 2006 the CPI further rose to 3,0.

Companies listed the greatest internal benefits deriving from CSR practices as follows: increased productivity, quality and sales; companies' longevity; easier compliance with legislation; increased loyalty from workers; competitive advantage; attraction and retention of qualified employees; reduction of costs; and financial improvement and access to capital.⁶⁷ The greatest external benefits of CSR practices perceived by the surveyed companies are improved image and reputation; contribution to Serbia's sustainable development; client's loyalty; preservation of the environment; political impact (support from the authorities and relationship); intangible benefits; and increased visibility.⁶⁸

According to this survey, the greatest impediments to the broader adoption of CSR practices are of an institutional or governmental nature, referring to the lack of an appropriate regulatory framework and the absence of government involvement, as well as a mix of financial and government related barriers such as a lack of visible results, lack of appropriate institutions, overall costs, excessive focus on short term gains, lack of linkage to financial success and apprehension regarding government change of policy. Barriers related to human resources such as lack of incentives, cultural differences, employee and management resistance were ranked last. The greatest perceived risk in adopting a CSR concept are increases in operating costs, increased demands from interested stakeholders, more frequent intervention from regulatory bodies, competitive disadvantage; decreased productivity, adverse impact on profitability and negative impact on quality of goods/services.

When asked, what would assist companies in improving their CSR performance, tax incentives, empowerment of local governments to decide on tax exemptions and subsidized interest rates were most frequently mentioned on the financial side. On the non-financial front, companies indicated a need for reporting regulations, recognition, reforms in labour laws, dialogue with government, guidelines and government interventions. In the opinion of the respondents, CSOs play only a minor role in this process. In general, companies believe that sharing information, discussing, collaborating and negotiating with different stakeholders would improve their CSR performance. Most of them would also like to see more dialogue with other businesses in Serbia, the government and foreign companies.

9.1.1.2. Responsible Business Initiative (RBI) Survey

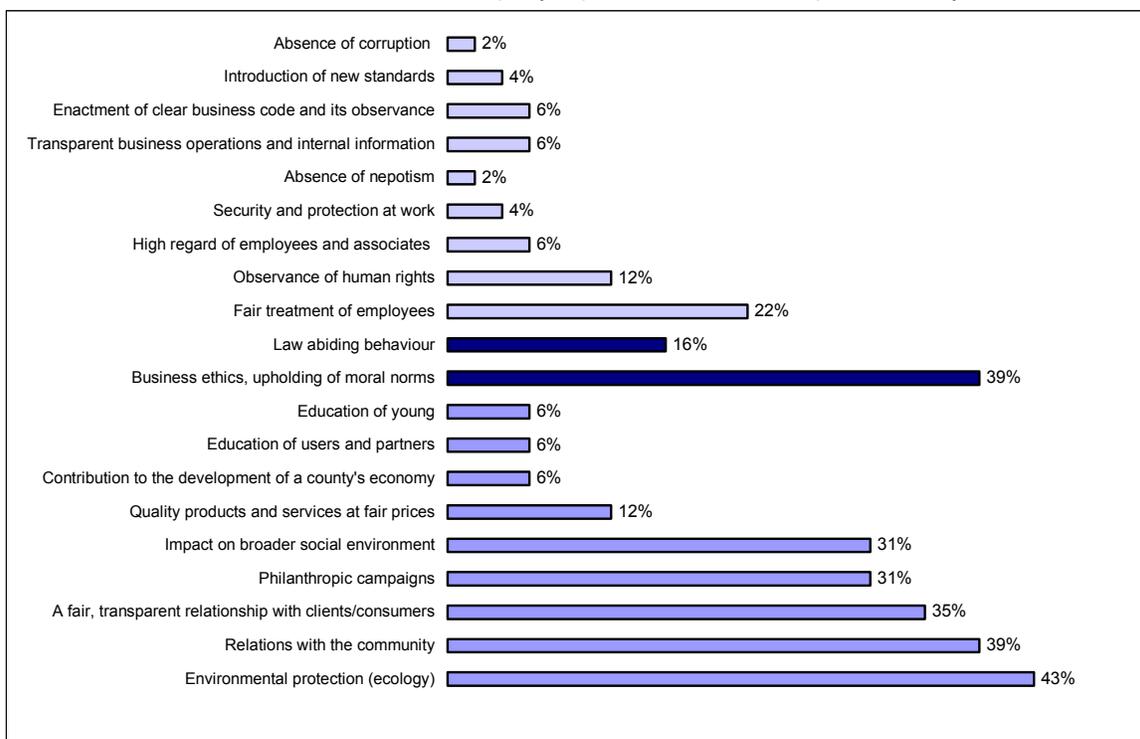
In March 2005, The Responsible Business Initiative (see also 9.3.1.) also launched a comprehensive survey on the experiences and attitudes with regard to CSR among businesses, NGOs, international development partners and public sector institutions (sample size 2.212).

The results reconfirm that Serbian companies and institutions are aware of CSR, but it is still an emerging concept, which has just started to be recognized as a socially desirable rather than a practiced behaviour. Most businesses are rather familiar with CSR on a theoretical rather than experiential level. This survey shows that environmental protection and relationship with the community are the most commonly listed CSR issues. However, neither was considered as the most important CSR item on the agenda of the respondent's own businesses. In fact, despite of the overall declarative awareness, environmental protection is one of the most neglected issues in Serbia.

⁶⁷ State owned companies and very large companies believe in the sustainability benefit of CSR more than other companies, and financial services companies which are most skeptical about increased productivity and most positive about facilitating the observance of regulations

⁶⁸ Financial services companies are relatively more positive about the improvement of image derived from CSR practices, while very large companies are significantly less enthusiastic about this. State owned companies believe more than other subgroups that CSR practices are contributing to sustainable development.

Fundamental CSR issues that Serbian company representatives could spontaneously think of:



For the most important CSR related issues in their own companies, respondents mentioned the following:

- Quality of products and services at fair prices (78%)
- Legal business in the spirit of law (61%)
- Transparent communication of product related risks to consumers (35%)
- General business ethics (31%)
- Fair treatment of employees (27%)
- Ensuring stable rather than volatile jobs (22%)
- Protection of health and security of workers (20%)
- Contribution to the country's economic development (8%)
- Environmental protection (8%)
- Philanthropic activities (8%)
- Ensuring that child labour is not used (2%)

FJM - Company

FJM is a company for engineering and intermediating in the programs representing unique environmental solutions for the revitalization of economy and countryside (through the development of small and medium-sized enterprises and family households) by using biomass in the production of energy sources, livestock food and healthy food. This renowned small enterprise was founded in 1989, from the idea of an acknowledged expert and innovator, Mr. Franjo Snaultilo.

Its first briquette-machine was announced to be the best in Europe at the Munich fair. For the specific features of his corporate strategy, Mr. Snaultilo said that they are reflected in the company's economic and social mission/function with the basic aim to use the potentials of agriculture and countryside through the recycling technology.

Nowadays, the main programs of the company are based on the use of biomass for the energy needs but also on the complete technology and equipment for the preparation of biomass and production of briquettes (cutting machines for cornstalks and sunflower), presses for soy and other straw and clover,

presses for branches, logs and stumps, presses for reparation of wooden mass from carpentry refuse, and plastic-coated refuse and plastics intended for recycling. The company is also producing four types of briquette machines for biomass. Apart from other machines, their offer includes, lines for chips and fries production, distilleries for alcohol production, machines for mini-doughnuts etc. The new part of the program is an automatic line for eco-product – “BIO-GRIC” (a unique solution of processing technique produced in our country).⁶⁹

9.2. SMALL AND MEDIUM SIZED ENTERPRISES

Small and medium sized enterprises face a relatively unfavourable environment in Serbia caused by problems of inefficiency of the country's economic structure, such as unsolved property relations, instability of regulations on transactions and investments, undefined macro-economic coordination, and non-entrepreneurial management of the economy. Reforms that followed the transition to a free market economy face numerous limits caused by an inefficient regulatory environment in terms of the building of institutional infrastructure necessary for the harmonized and successful development of SMEs and insufficient measures of economic policy in relation to the stimulation of this business sector.

Until recently, smaller businesses have been mostly tolerated, rather than supported. But just like in other countries that went through the transition process, the SME sector in Serbia has been constantly growing over the last ten years. In 1990, the country counted around 20.000 SMEs. The data from the year 2000 shows that in there are currently about 60.000 active enterprises in Serbia out of which approximately 98 percent are SMEs. The important role SMEs are playing (and will play) in the national economy becomes even more obvious when future developments in the socio-economic field are taken into consideration. The number of unemployed people in Serbia is about 800.000, and it has been estimated that in public companies, which still need to be privatized, there are at least 700.000 persons more who are regarded as potential economic surplus (not considering the real technologic surplus caused by outdated technology in certain industry sectors). This means that about 1,5 million people could lose their jobs in the near future.⁷⁰

Alongside with unfavourable funding conditions on one hand, and imperfections existing in the legal system on the other hand, the major problems are also a general lack of knowledge in the field of business planning, modern management techniques and skills necessary for successful business activities, the existing legal regulatory framework and financial management, amongst others. For that reason, it is crucial to support SME and entrepreneurs to gain the necessary knowledge and adopt new management techniques through trainings and specially modelled programs for that sector. Overall, the low competitiveness of domestic companies and their products and services on international and even local markets represents one of the major economic problems the country has to deal with.

National Network of Technical Support to SME Development

The Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship was established in 2001 with the objective to support the development and interests of the SME sector. At the beginning of 2004, there were 11 regional agencies and centres for SME development in Serbia, covering 70% of the country. A pilot project on 'Product development in the Republic Network for the needs of SMEs to upgrade the scope of services of regional agencies and centres for the SME sector was completed. It resulted in the creation of new services developed by the regional centres, which include software development for self-testing of entrepreneurial skills, a catalogue of entrepreneurial ideas and projects in agriculture and cluster development, amongst others.

Regional Cooperation

At the 3rd international trade fair of entrepreneurship named 'Business Base', a Memorandum of Understanding was signed between the Romanian Agency for SMEs and Cooperatives and the Serbian Agency for the Development of SMEs and Entrepreneurship. The foreseen activities include joint preparation, implementation and evaluation of SME support programmes, providing relevant

⁶⁹ Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship (2003)

⁷⁰ Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship (2005)

information to encourage SMEs to increase international cooperation, supporting SME participations in trade missions, at international fairs, seminars, congresses and symposiums, and enabling contacts and business cooperation between SMEs in both countries.

9.3. CSR INITIATIVES

9.3.1. Responsible Business Initiative (RBI)

The national CSR program titled Responsible Business Initiative was launched in late 2004. The objective of RBI is to instigate, institutionalize and make operational the concept of CSR in Serbia, as well as to encourage the development of new forms of multi-sector cooperation aimed at creating the potential for the sustainable development of communities, civic initiatives and civil society. The project is coordinated by the Fund for an Open Society, the Serbian Chamber of Commerce and SMart Kolektiv⁷¹, as the project implementer, and it has been joined by other institutions and organizations such as the World Bank, UNDP, Foreign Investors Council, Serbian Investment and Export Promotion Agency (SIEPA), to name a few. In early 2005, the RBI project, in cooperation with Strategic Marketing, started a study aimed at presenting the experiences and views of the relevant social factors in Serbia on CSR. The results of the study were presented in the previous section of this document. The activities carried out in the course of RBI are grouped in three stages:

1.) Stage one

Research with regard to the attitudes of the general public, business leaders, non-profit and public sectors towards CSR is being carried out in Serbia. This includes surveys, focus groups as well as a comparative analysis of all relevant CSR documents and practice in Serbia and Europe.

Furthermore, a *National CSR Strategy* will be developed, which combines European and global experiences, as well as the work of experts from all sectors involved, along with public discussions and round tables. A multidisciplinary team is responsible for elaborating the national strategy for Serbia. The document will be drafted by a multidisciplinary expert group from Serbia and other European countries (Slovakia, Poland, Hungary, Croatia, Slovenia, the Czech Republic and Bulgaria), as well as experts from various fields, such as representatives of CSR Europe, Business in the Community, IBLF etc. The Strategy will deal with the development of relationships between business and other sectors, local communities and society, taking into account the research findings, as well as experiences from other European countries. It will provide guidelines and proposals with regard to CSR development in Serbia, based on the most relevant social issues and problems, economic and political surroundings, legislation and regulation, as well as special relations between certain economic sectors and certain social areas. The Strategy will also focus on necessary changes in legislation for further development of CSR (e.g. tax regulations, health and environmental standards, labour law, law on non-governmental organizations and volunteer work, legislation on PPPs). The final result will be an action plan including clear guidelines for further steps and concrete implementation of CSR in Serbia, bearing in mind all local characteristics and national priorities.

At the same time, promotion and lobbying efforts through the creation of a *CSR network* will complement the other activities described. Responsible business strategies will be promoted among the representatives of all three sectors (private, public and NGOs) with the aim of creating a network and ensuring their participation in forthcoming stages of the project. Promotion, education and lobbying will be carried out through following activities:

- Education of companies, non-profit sector and relevant representatives of public administration,
- Creating new strategic partners,
- Promotional publishing activities,
- Launching of a newsletter (monthly electronic information bulletin about CSR including overview of local news, case studies and global developments)⁷²,
- Creation of a web portal,

⁷¹ SMart Kolektiv/Social Marketing Artisans is the first organization in Serbia, which promotes the use and development of social communication.

⁷² Available in English language at the RBI homepage: <http://www.smartkolektiv.org/rbi.html>

- Establishment of a database providing an overview of the situation and resources, and
- Providing for continuous cross-sectoral communication.

2.) Stage Two

The second stage will encompass the organization of a *Forum on Responsible Business in Serbia*. The *first CSR conference* was an international event, bringing together representatives of local and international companies and NGOs, donors, state bodies and representatives of international institutions. The conference established the Responsible Business Forum Serbia, which gathers companies and institutions active in Serbia, willing to develop and implement CSR. Furthermore, it launched the National Strategy of CSR and adopted an action plan for the forthcoming period (stage three), which envisages activities for the implementation of the Strategy. The conference also presented positive experiences and case studies as well as possible modes of cooperation in the field of CSR.

3.) Stage Three

The last step deals with the implementation and realization of the National Strategy. Activities include:

- Systematic spreading of the idea and concept among the business sector,
- Training companies to accept and promote CSR,
- Training the NGO sector for cooperation based on this concept,
- A fair of projects establishing links across different sectors,
- Connecting business, NGO and public sectors in joint projects,
- Preparing necessary drafts to amend legislation in order to advance CSR,
- Implementation of projects aimed at advancing environmental protection, human and labour rights and the fight against corruption in companies,
- Local foundations in communities,
- Establishment of the Responsible Business Forum as an independent organization, and
- Development and implementation of first 'cause-related' campaigns.

9.3.2. Balkan Community Initiatives Fund (BIF)

The Balkan Community Initiatives Fund is a domestic public benefit fund that supports people in Serbia and in Montenegro to take an active part in improving the life of their communities. The Fund provides financial support for the realization of activities and initiatives coming from local communities. An important part of the activities consists cooperating with the business sector in the area of corporate philanthropy. As a local fund, BCIF cooperates with both businesses and civil society organizations to support the creation of strong partnerships between the two. On one hand, they work with companies who are in the process of considering how they can best and most effectively support these types of activities. On the other hand, they work with associations of citizens to improve their understanding of how to work with the business sector. The Fund also promotes corporate philanthropy as an important part of the wider practice of Corporate Social Responsibility. Together with its partners, BIF has joined the Responsible Business Initiative and is member of a working group of the Institute for Standardization that is currently developing ISO 26000.

9.3.3. Fund for an Open Society

The Fund for an Open Society is an NGO that develops and supports systemic development policies and programs aimed at the advancement of democratic societies. It promotes the principles of the rule of law, human rights, good governance, accountability and the participation of citizens in public affairs. Ultimately, the Fund works on the establishment of the self-sustainable democratic and pro-European development of society, fortifying stability and cooperation in the region of Southeast Europe, and the participation of Serbia in the process of European integration. The Fund is a part of an international network, the Open Society Institute, founded by George Soros. Its work in Serbia is carried out through programs of its own, and/or through supporting projects by other NGOs, professional organizations, institutions and associations, or those of public institutions including governmental bodies.

The activities of the Fund aimed at:

- Developing a democratic society, based on the principles of the rule of law and good governance;

- Developing a civil society and the creation of conditions for the active and effective participation of citizens in public affairs;
- Protecting human rights;
- Advancing ethnic minorities and marginalized groups, gender equality and non-discrimination towards citizens with special needs;
- Education reform as an instrument of social and economic development, as a promoter of social cohesion and as a prerequisite for the development of a knowledge-based society;
- Free flow of information;
- Stimulating individual development and creativity, accompanied by the affirmation of professionalism and of accountability in professional and social activities;
- Strengthening European norms and the values of societal organization in tandem with the reaffirmation of traditions that have roots in European value systems, including ethical principles and standards of public behaviour and the performance of public affairs.

10. BOSNIA AND HERZEGOVINA

10.1. CORPORATE SOCIAL RESPONSIBILITY DEVELOPMENT

Bosnia and Herzegovina (BiH) is among the poorest countries in Europe. Almost 20 percent of the people live in conditions of extreme poverty, having less than 1 Euro per day.⁷³ Three years of war destroyed the economy and infrastructure of the country, and caused high unemployment. Although BiH counts with a large grey economy, official unemployment rates reach approximately 41%⁷⁴. More than half of total BiH income is controlled by 20 companies, of which several are still state owned⁷⁵. In the process of recovery, many requirements emerged for BiH companies, and the economy in general, in terms of competitiveness and endurance. Consequently, CSR is still at a very early stage of development.

The industrial sector in Bosnia and Herzegovina remains characterized by low productivity and poor competitiveness and the authorities have not yet developed a sound and comprehensive policy. Some progress can be reported in the area of privatization and restructuring of companies.⁷⁶ However, BiH still counts with a large portfolio of wholly state-owned companies, and the privatization of strategic firms is very slow. In the area of corporate governance, the implementation of legislation remains problematic and awareness is still limited. Until now, no corporate governance code exists and there are significant differences between the regimes followed in various entities. In the field of SME policy, the country has not yet adopted the draft SME Development Strategy, which proposes the establishment of a central SME policy capacity, including the setting up of a national SME Agency, a state-level advocacy system and other related policy instruments. Beyond this strategy, little action has been taken to support SME development. Whilst Bosnia and Herzegovina remains committed to the European Charter for Small Enterprises, the absence of a policy and implementation capacity at state-level implies that the country cannot reap any real benefits.⁷⁷

At present, it is difficult to find publicly released records of companies' CSR related activities. Bosnia and Herzegovina as part of the former socialist Yugoslav system has a long tradition of regarding the state as the main actor responsible for regulating social welfare, social rights, community development, etc. Currently, there is a general trend towards a reduced role of the government in that area and the involvement of other stakeholders such as the business sector is becoming more and more important. During the period of socialism, companies in BiH have participated in social activities. Individual and corporate donations and sponsorships to sport clubs, cultural events, disabled people and children were very common. Therefore it can be stated that despite the fact that CSR is not officially documented in the country, different initiatives focusing on social engagement can be found even though they are not articulated as CSR practice and have a very strong focus on philanthropy.

In November 2004, a mission from UNDP Nordic Office/Business Outreach to assess the possibilities and general interest in the launch of a GC local network made the following observations with regard to the state of CSR in BiH:

– *Low level of awareness on CSR practice:* Since the first mission, UNDP BiH has met with over 70 stakeholders, mostly companies, but also international organisations, CSOs, media, academia and labour organisations. The objectives were to advocate for ethical business standards and to build a community of GC members in BiH before launch of the local network. It had been distinguished that awareness on CSR practice in BiH is on low level.

– *Interest in anti-corruption/transparency:* UNDP also conducted stakeholder consultations with business leaders in the country, in order to present the GC and to explore possible themes and activities of the local BiH GC network. Most companies, both public and private, have expressed concerns of widespread corruption and lack of transparency in both, private and public sectors.

A regional conference hosting businesses from Croatia, Serbia and Montenegro, and BiH along with NGOs and government representatives took place in March 2005. Companies from BiH showed only

⁷³ Spiric (2002)

⁷⁴ US Department of State (2005)

⁷⁵ Mesanovic (2005)

⁷⁶ NORAD (2002)

⁷⁷ European Commission (2006)

limited interest for the conference and most decided not to come because of a lack of time. Conclusions of the Conference on how to develop and improve CSR are as follows⁷⁸:

- to strengthen co-operation between sectors of society (government, private and non-government/non-profit sector), as such collaboration needs to grow from implementing ad hoc projects to developing long lasting partnerships.
- to further develop regional co-operation, as the western Balkans countries have a lot of common ground and linking elements that should be utilized for the progress of entire region. Co-operation between Croatia, Serbia, Montenegro and BiH through exchange of CSR best practices and formation of common informative resources, such as a website, can contribute to faster acceptance and practical application of CSR.
- to raise awareness about CSR in all sectors of society, taking into account that the advancement of this concept is still fairly unknown in this region. It is therefore necessary to increase the knowledge about CSR among businesses, NGOs and government representatives. Academic institutions can and should play a role in creating a solid and easily accessible knowledge base about CSR in the region. In addition, multinational companies should take a leading role in the promotion of CSR.
- to adapt legislation as to create a legal framework within which CSR activities are implemented (strong focus on tax deduction systems in all three countries).
- to further strengthen the NGO sector and make it more professional.
- to emphasize the role of CSR in the process of European integration.
- to continue investing in communities in an innovative and sustainable manner through focusing on the promotion of best practices and establishment of transparent support mechanisms.
- to strengthen the role of the media as a key player for promoting ethics (strategic and long-term promotion of CSR of all actors in society through constant education of journalists, promotion of their research and animation of key people and decision makers).
- to strengthen the role of governments in encouraging CSR, also as a mediator between business, NGO and all other interested parties.

10.1.1. Environmental Responsibility

Due to a concentration of heavy industry, BiH has faced severe environmental problems already before the war. The economic downturn that followed the conflict brought along numerous industrial closures and had some beneficial effects in terms of reduced pollution. Nevertheless, outdated technology applied in industrial processes makes it difficult for the country's economy to make significant progress in this area.

Bosnia and Herzegovina has signed up to various international agreements and it started the process of re-ratifying everything that was ratified in Former Yugoslavia. But even though environmental laws require companies to obtain specific permits for their activities (to meet the requests for waste management, to establish monitoring system, reporting, 'polluter-pays principle', etc.)⁷⁹, environmental issues are still widely neglected in the private sector. Due to the complicated political system in the country there is much unclarity with regard to jurisdiction over environmental issues. As a result of this overall confusion in terms of monitoring, controlling, approving and disapproving any activity that is potentially environmentally questionable, companies in general neglect environmental concerns.

Various initiatives have been developed to support companies in adopting standards related to environmental friendly business conduct, such as for instance the project "Capacity Building for Implementation of Environmental Management System (EMS), which is based on ISO 14001. Based on data provided by the BiH Chamber of Commerce, seven companies in the country have already adopted this ISO standard.

POEMS (Pollution Prevention and Environmental Management System)⁸⁰ is an initiative that aims at building the necessary capacity of SMEs in BiH for the implementation of environmental management systems. The final goal was to carry out an internal audit to get the verification of EMS according to ISO 14001. The project was financed by the Czech Environmental Management Center

⁷⁸ "Odgovorno poslovanje za dobrobit privrede i društva"; IRC regional Conference 21-22 March, 2005, minutes.

⁷⁹ Cited by Mesanovic (2005) from "Infrastructure and environment", WKO (5-7. April 2005)

⁸⁰ POEMS itself is a methodology that was originally developed by the CEMC.

(CEMC) and the Czech Government through the Department for International Support. The national consultant for POEMS-BiH project was the Center for Environmentally Sustainable Development (CESD) in Sarajevo.

POEMS-BiH started in April 2004, with four companies (“Žica” – metal processing, “Ferimpex”- chips production, “Sarajevska pivara” – beer and beverages production and “Vegafruit” – vegetable and fruit processing).

All representatives participated in an interactive combination of in-class study and demonstration activities in the course of 12 seminars, and were finally certified as internal auditors of the environmental management system by the Czech Environmental Management Center.

The final consulting seminar was held on 8 July 2005, in Sarajevo, and was organized by the CESD. On this occasion, the certificates were awarded to the representatives of industries participating in the project implementation.⁸¹

Krajina Klas Company



The company was founded in 1997, growing from a small bakery to a business with around 80 employees. The company focuses on the production of bakery and pastry products, ice cream and distribution of raw materials and equipment for bakeries and pastry shops. The production is organized in three sections: pastry producing facility, bakery and pastry shop with ice-cream production. The company belongs to the group of small companies, which – according to the new sets of environmental laws – are not obliged to have the environmental permit for their work. However, the company is aware of its obligation towards the protection of the environment and its resources, and it accepted the participation in a project introducing cleaner production methods.

An environmental diagnosis carried out in the company revealed that the business faced problems with irrational consumption of water and energy, organizational mistakes in all three production plants, as well as inefficient waste management. Based on the diagnosis of all three units, measures have been identified to improve the environmental efficiency of the firm.

Technical measures proposed included the construction of a front chamber in front of entrance to the cooling chamber in order to avoid mixing of outer warm and cold air, and by doing so, to reduce the energy consumption. Furthermore, the changes involved a rearrangement of the fans for extracting the warm air and the place of entering the fresh air, as well as building in the insulating panel between the cooling chamber and bakery stove. Organizational measures focused on the reorganization of the business, in particular its processes for raw materials and final products delivery, in order to rationalize the fuel consumption. Good housekeeping measures included separate collection of packing material waste and placing it on the waste market instead of disposal on the landfills, and separate collection of the organic waste.

Based on the total expenses for the realization of the proposed measures and calculated annual savings, the pay back period of the investments has been only 2,5 months. By introducing several measures that mostly fall in the category of good housekeeping, the company managed to improve primarily its energy efficiency (savings of about 7.500 kWh/year). In addition, about 1,2 tons of packing material waste was collected and about 600 kg of organic waste recycled instead of disposing it on a waste site. Through this project the company has saved resources, reduced pollution and learned that with small investments and with raised environmental awareness, great results can be achieved that go hand in hand with economic benefits (business case).⁸²

Sejdić Commerce

Sejdić Commerce is a family business located in Odžak, which was established in 1971 as an independent craft workshop engaged in low-level wood processing activities. It grew steadily from a craft workshop to a small to medium-sized enterprise involved in wood processing.

With the help of USAID loans the company introduced pollution prevention practices that generated respectable savings.

Sejdić C. is a secondary wood processor that deals with both hardwood and softwood to produce windows and doors with installed glass. Lumber is processed into windows and doors through usual processing activities using modern automated equipment. Painting is used for surface wood protection

⁸¹ For more information on this project, see: http://ea-sdi.ujep.cz/files/2006/Brno_2006_Proceedings_EN.pdf (p.147-151)

⁸² Voice of Sustainability (2004)

and finishing. The window glass input is also organized at the site and includes glass sheets cutting, cleaning and joining with special belt into double thermal window glass. A modern system for glass cleaning and washing already existed. The process is based on use of only hot water, which circulates in a close system. As said, modern equipment ensuring high workers protection measures has been installed. The efficiency is approximately 70% (depending on the lumber quality). The paints are separately stored not more than 100 kg to avoid its long storage period. Packaging is collected and disposed as solid waste.

Sejdić Commerce started production in 1997 and in the next two years faced a serious sawdust disposal problem. Although the company has installed a closed sawdust collection system, this was only a partial solution, because disposal of sawdust was costly for the company. Further improvements were necessary and management decided to purchase a drying chamber that became operational in year 1999. Although a part of sawdust became fuel for the central boiler system, the disposal of the remaining volume was still a problem. The sawdust storage and disposal has become more than environmental concern but also a potential fire risk, which directly impacted business since the volume of collected sawdust reached 10,5 tons/month. Therefore, it was decided to solve this problem by installing a machine for making briquettes, which was directly connected to the silo for sawdust storage. Results were more than respectable; the modern automatic briquettes making machine produced briquettes that were used for their own central boiler and the rest was sold. Calculating the overall impact of this pollution prevention measure, management provided evidence that the new machine has repaid investment within 2 years and cost savings from drying process and briquette making process have been estimated at KM 8.500 (approx. EURO 4.360)

The production process requires the use of paint for window frames and doors finishing. In pre-war BH nitro-based paints were widely used. Those paints had very serious impacts on the environment and human health, because they contain Volatile Organic compounds (VOCs).⁸³ Major health effects are eyes, nose and throat irritation, while headaches, visual disorders and memory impairment are among the immediate symptoms that some people have experienced. Although the management paid respectable attention to provide good quality paints, the problem related to the impact of VOCs particles on workers directly exposed to paint vapour was a continuous concern for the management as it did not go along with their vision of sustainable business practice. Their products were recognized through quality finishing and protecting and therefore the importance of well-trained workers every day available became a priority. Reflecting on how to create a good and healthy working environment, management decided to switch their technology and to start using water-based paints to protect workers, and to achieve long-term benefits and cost reduction. The company installed a used filter system in a very good condition purchased from Sweden. The system ended with a pipe and filter, which additionally treats hazardous air emissions before they are finally emitted outside the facility. The costs of paints used for this method were more than two times higher in comparison with alkyd (nitro) based paints. Although one can say that the use of this new method looks more expensive, the workers health issue went in front of any other costs. However, some examples from worldwide practice show a lot of other advantages for this method, such as longer life on outdoor exposure, approximately twice as much; solvent emission abatement by some 90%; and reduced fire hazards.

Sejdić Company has certainly understood those principles and implemented them in respectable manner. Monthly cost savings and care about workers and healthy working environment are obvious examples of high sense of responsibility for further business development, profit increase, employment increase, improvement of company's public image and last but not the least protection of the environment.⁸⁴

10.1.2. Social Issues

Until today, the socialist tradition to invest in local communities and protect labour remains present in the country. However, the capacities and opportunities for companies to practice CSR in terms of social engagement declined. BiH has ratified over 65 different ILO Conventions and national labour legislation guarantees fair employment conditions, work-place safety, vocational guidelines and trainings, and equality of opportunity and treatment. But because of the problematic businesses environment and the resulting difficulties companies face, it is expected that their care for society be of minor scale.

⁸³ VOCs are a group of easily evaporable organic compounds that occur in gasoline, paints, paint thinners and solvents used for various industrial processes.

⁸⁴ Source: Voice of Sustainability, Volume 5

In many non-OECD countries, low-wage labour and unemployed people encounter mistreatment and exploitation by private companies⁸⁵. In general, it is difficult to collect confirmed data on maltreatment of employees in BiH. There is however a notion that gender discrimination exists with regard to salaries in state-owned enterprises, but not necessarily in private businesses⁸⁶. Even though women are entitled to one year of paid maternity leave, they encounter problems with regard to the non-payment of leave allowances, and the dismissal of pregnant women and new mothers. Based on a UNDP report on municipal development, non-transparent and discriminatory hiring practices are also visible in the country, in particular within public enterprises such as telephone, electricity and forestry companies, which tend to employ members of the dominant ethnic group or political party in the given area.⁸⁷ Child labour has not been officially registered in BiH. The minimum age for employment of children is 15 years and the national labour regulation prohibits children from performing hazardous work, such as night work.⁸⁸ Labour legislation further guarantees occupational safety and health regulations, overtime pay, rest and vacations. Nevertheless, it can be difficult for employees to leave even unsafe workplaces due to a lack of employment opportunities in certain areas.

Associations of employees are not widely active in fighting irresponsible business practices or promoting corporate ethics in the country. The national law prohibits discrimination by employers against union members and organizers in accordance with ILO standards. Nevertheless, barriers exist for employees to bring complaints against employers, such as high unemployment, a backlogged court system and the large number of workers in the grey economy. Some unions even reported that employees of private companies were threatened with dismissal if they joined a union⁸⁹.

The media in Bosnia and Herzegovina focuses only sporadically on CSR related issues. Only limited information appears in newspapers and few companies provide information on their websites.

10.1.3. Engagement of NGOs

The Civil Society Promotion Center (CSPD) has conducted some research on the role of NGOs in terms of CSR promotion in the country. The results show that only 1% of the surveyed NGOs received permanent financial support from the business or public sectors and that most of them rely on international donors. Almost half of them indicated to engage in sporadic cooperation with businesses, mainly based on service exchange (e.g. cooperation on municipal development plan, exchange of training for money, shared humanitarian actions, participation on trade fairs). A lack of understanding about NGOs and their role in the private sector, improper presentation of NGOs toward this sector, insufficient legislation regulating such cooperation and uninspired tax deduction policy in the country are perceived to be the greatest obstacles to cooperation between the private and the non-governmental sectors.⁹⁰

Business representatives that took place in the survey mentioned that in a very unfriendly business environment, it is difficult to follow any other principle than commercial success. According to their opinion, the problem is the state with its low labour costs creates pressure on competitors to produce excess profit. In this context, there is no time to think about human rights. However they still have to fight to satisfy basic consumer requirements: good price, quality, availability, security and usefulness. In general, companies are interested in supporting NGOs, as well as in getting assistance from them in developing a positive business environment. Half of the surveyed companies stated that they have supported NGOs but will not continue to do so because of the legislative obstacles they face.

Despite the fact that NGOs in BiH are not remarkably active in the field of CSR, several NGOs have decided to initiate concrete projects and initiatives, mainly in the field of awareness raising, research and dialogue. This kind of approach provides good back up for further activities as it contributes to the building a comprehensive knowledge base on CSR related issues.

⁸⁵ U.S. Department of State (2006)

⁸⁶ U.S. Department of State (2006)

⁸⁷ UNDP BiH (2006)

⁸⁸ U.S. Department of State (2006)

⁸⁹ U.S. Department of State (2006)

⁹⁰ Centre for Promotion of Civil Society (2005)

In 2004, the International Rescue Committee (IRC) in Bosnia and Herzegovina launched an initiative to promote CSR as a framework for partnership building between CSOs, government institutions and business. Their approach was to organize discussion round tables and set up a short-term training program in cooperation with the Sarajevo Business School. The first round table took place in spring 2004 and was joined by respectable companies that articulated their experiences on the subject matter. Most of them complained that a cooperation with NGOs on a daily bases is difficult because of the limited time available and a lack of concrete ideas on what can be done to improve the situation.

10.1.4. Policies and legislation

In Bosnia and Herzegovina, policies and legislation in the field of CSR are discussed in the course of the EU integration process. A representative of the Agency for European Integration⁹¹ in BiH said that CSR is a problematic issue even in developed countries. Hence, she claimed that the best way for the country would be to incorporate its CSR strategy into the EU integration and partnership process. Promotion of continued structural reform can be seen as a first step in that process. Further improvement of corporate governance, a reduction of labour rigidities and support to the mobility of labour in the national market are also crucial factors in that development. Experts further suggest that the government needs to implement supportive measures to encourage a responsible business culture in the country, such as:

- Harmonization of employment and work procedures with EU standards;
- Fighting the grey economy;
- Development of high-quality and efficient educational and vocational systems;
- Employment procedures which will enable employers to pay social and pension benefits;
- Allowing the market to operate by reducing government interference and lowering the ratio between government expenditure and GDP; and
- Strengthening state-level capacity in the field of environment, ensuring the full functioning of a State Environment Agency.

A crucial issue in the debate around CSR is political corruption that became an acute problem in the country. Corruption is widespread and encompassing the business sector as well. Another issue concerns national tax laws with regard to donations. Many companies argue that this is a rather discouraging framework⁹² that needs to be adjusted to motivate businesses to be more socially responsible.

10.2. CSR INITIATIVES

10.2.1. UN Global Compact in Bosnia and Herzegovina

On September 19, 2005, UNDP and the Foreign Trade Chamber of Bosnia and Herzegovina launched the UN Global Compact and a local network in Sarajevo with the basic objectives to incorporate the spirit of the UNGC and its ten principles in companies' business strategies and operations and to encourage partnerships among key stakeholders for the wider development of CSR in Bosnia and Herzegovina. The local network provides a countrywide platform for mutual learning and policy dialogue and advances responsible business practices in BiH, encourage business engagement in society and facilitate dialogue between businesses, the UN, labour organizations, government and civil society. UNDP entered into a partnership with the BiH Foreign Trade Chamber in order to jointly support the process of establishment of the local UNGC network. It was agreed that it would initially focus its attention on fighting different forms of corruption and its supporters.

10.2.2. Ethical Code of Conduct and Corporate Governance Codes

Different codes manage and shape internal and external corporate behaviour. In relation to the development of corporate governance system, two initiatives are taking place in the country.

⁹¹ Ramljak, Daria at the IRC regional Conference on 21 March, 2005.

⁹² In neighboring countries such as Macedonia, Bulgaria or Croatia, the deductible amounts are much higher.

The Canton Sarajevo Chamber of Commerce (KSCK) launched a project to promote and establish an Ethical Code within member companies in cooperation with Chambers of Commerce from Belgrade, Ljubljana and Zagreb. Based on the discussions, Chambers from Sarajevo and Zagreb have drafted the text and a manual of an Ethical Code of Conduct for their members. In addition, they wrote a societal mission for all Chambers of Commerce in the SEE region, which focuses on their role in the development of CSR through accepting the code, first on a Chamber basis and later tailored to different corporate branches.

Another initiative was launched by the Delegation of the European Commission in BiH as part of its wider efforts to support improvements of the legal framework for capital market development. In this context, the Delegation conducted an assessment of the state of corporate governance in the country. Basically, the Security Commission of BiH is responsible for regulating corporate governance related issues and has the authority to prescribe standards in that respect. So far the Commission has issued three sets of standards, which are, according to EC Delegation's assessment, rather a response to certain issues such as organization on shareholders' meetings of registered joint stock companies and privatization investment funds, rather than comprehensive recommendation on good corporate governance.

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ANNEX I – CONTACT DETAILS OF RELEVANT INSTITUTIONS/ORGANIZATIONS

BULGARIA

Bulgarian Business Leaders Forum (BBLF)

Type: Business Association

Objective: Promotion of socially responsible business practices

Address: 42, Slavyanska Str, Sofia 1000, Bulgaria

Tel.: +359 (2) 9865202

Fax: +359 (2) 9865625

Email: office@bbf.bg

Web: <http://www.bblf.bg/index.php>

Global Compact Bulgaria

Type: International Organization

Objective: CSR Development

Address: UN House in Bulgaria, 25 Khan Krum Str., P.O. Box 700, 1040 Sofia, Bulgaria

Tel.: +359 (2) 9696100

Fax: +359 (2) 9813184

Email: info@undp.bg

Web: <http://www.undp.bg/>

Contact: Ms. Elena Panova, Program Analyst, +359 (2) 9696125, elena.panova@undp.org

Ms. Maria Metodieva, GC Consultant, +359 (2) 9696152, maria.metodieva@undp.org

Bulgaria Economic Forum

Type: Organization (Bulgarian and international private companies, Bulgarian state institutions and NGOs)

Objective: Promote the business environment of Southeast Europe to potential foreign investors and to facilitate the dialogue between the government and the business

Address: 86, Vitosha Blvd., 1463 Sofia, Bulgaria

Tel.: +359 (2) 9515259 / 9515759 / 9516810

Fax: +359 (2) 9532924

Email: info@biforum.org

Web: <http://www.biforum.org/>

European Management Center

Type: Business Association

Objective: Management Training of Bulgarian companies and organizations

Address: 1 Panayot Volov Str., 1504 Sofia, Bulgaria

Tel.: +359 (2) 9444758 / 8435755

Fax: +359 (2) 8467573

Email: emc@emc-bg.org; office@emc-bg.org

Web: <http://www.emc-bg.org>

Bulgarian Small and Medium Enterprises Promotion Agency

Type: Governmental Business Promotion Agency

Objective: Coordinating and implementing policies and programmes for SME promotion and development

Address: 1 Sv. Nedelia Sqr., 1000 Sofia, Bulgaria

Tel.: +359 (2) 9805069

Fax: +359 (2) 9805869

Email: office@sme.government.bg

Web: <http://www.sme.government.bg/en/default.asp>

Club 9000

Type: NGO

Objective: Quality Systems, the Environmental Management Systems and the Integrated Systems; supports implementation of ISO 9000 and ISO 14000

Address: PO Box 431, 108 G.S. Rakovski St., 1000 Sofia, Bulgaria

Tel.: +359 (2) 9804910

Fax: +359 (2) 9804910
Email: club9000@club9000.org
Web: <http://www.club9000.org/en/>
Contact: Ms. Maria Zoeva - Chairwoman

Balkan Institute for Labour and Social Policy

Type: NGO

Objective: Assisting the accession of Bulgaria to the European social space; supporting the integration of the Balkan and European social values

Address: Tzarigradsko Shosse, bl. 22, entr.3, app.31, 1113 Sofia, Bulgaria

Tel.: +359 (2) 9712558

Fax: +359 (2) 8709661

Email: institute@bilsp.org

Web: <http://www.bilsp.org/old/eng/index.htm>

Contact: Dimitar Matev - Vice President (dmatev@mlsp.government)

Bulgarian Energy Efficiency Fund

Type: independent profit-oriented legal entity, separate from any governmental agency or institution; fully supported by the Government of Bulgaria (PPP)

Objective: Facilitating energy efficiency investments and promoting the development of an energy efficiency market in Bulgaria; support the identification, development, and financing of viable energy efficiency projects implemented by private enterprises, municipalities and households.

Address: 4 "Kuzman Shapkarev" Str., 1000 Sofia, Bulgaria

Tel.: +359 (2) 8100080

Fax: +359 (2) 8100005

Email: info@bgeef.com

Web: <http://www.bgeef.com>

Energy Agency of Plovdiv

Type: energy management agency (NGO)

Objective: to encourage more efficient energy use in Bulgaria and the development of renewable sources of energy in the process meeting EU criteria. The activities include: performing energy-conservation audits for factories and buildings; providing education and training on energy conservation; carrying out a public information campaign on energy conservation, hosting exhibitions and securing publicity; acting as a source of information on energy conservation, including the creation and maintenance of a database.

Address: 15 Gladstone Street, PO Box 36, BG-4000 Plovdiv, Bulgaria

Tel.: +359 (2) 32625755

Fax: +359 (2) 32620780

Email: cgpf-eap@mbox.contact.bg

Web: <http://www.eap-save.org> (expired)

Bulgarian Association of Regional Development Agencies (BARDA)

Type: Umbrella association of independent regional and local economic development agencies and SME support centers in Bulgaria

Objective: Promote a national network of SME support agencies and centers fostering regional development throughout Bulgaria under high quality standards

Address: 6 "Triaditsa" Str., Sofia 1000, Bulgaria

Tel.: +359 (2) 9830342/43/44

Fax: +359 (2) 9830341

Email: barda@barda.info

Web: <http://www.barda.bg/default.asp>

Center for Economic Development

Type: NGO

Objective: Carries out economic research, analysis and elaboration of current economic legislation; develops economic policy options, advocates for proper implementation of policies and promotes the exchange of ideas and information; organizes workshops, conferences, and other public events. (Project on SMEs and Corruption Prevention)

Address: Str. Chervena stena N 46, Sofia 1407, Bulgaria

Tel.: +359 (2) 9534204 ext.104

Fax: +359 (2) 8190776

Email: S.Slavov@ced.bg; ced@ced.bg
Web: <http://www.ced.bg>
Contact: Mr. Stanislav Slavov

Integra Bulgaria

Type: NGO

Objective: Promote sustainable development of SMEs in Bulgaria by transforming them into “islands of integrity” which are socially responsible on a personal and corporate level

Address: Parchevich 7, Sofia 1000, Bulgaria

Tel.: +359 (2) 9810711 / 9802768

Fax: +359 (2) 9810711

Email: grozdan.stoevski@integra-bds.bg; peter.tashev@integra-bds.bg

Web: <http://www.integra.sk/index.htm>

Contact: Mr. Grozdan Stoevski – PR Director and SME Manager

SERBIA

Responsible Business Initiative (RBI)

Type: Initiative of the Fund for an Open Society, the Serbian Chamber of Commerce and SMart Kolektiv, an organization that promotes the use and development of social communication

Objective: Instigate, institutionalize and make operational the concept of socially responsible companies in Serbia

Address: Kursulina 14/3, 11000 Belgrade, Serbia

Tel.: +381 (11) 3087096 / 97

Fax: +381 (11) 3087096 / 97

Email: rbi@smarkolektiv.org

Web: www.smarkolektiv.org/rbi.html

Contact: Neven Marinović - Director & project coordinator

Fund for an Open Society

Type: NGO

Objective: Develops and supports systemic developmental policies, programs and activities aimed at the advancement of democratic cultures

Address: Zmaj Jovina 34, 11000 Belgrade, Serbia

Tel.: +381 (11) 3025800

Fax: +381 (11) 3283602

Email: office@fosserbia.org

Web: www.fosserbia.org

Foreign Investors Council (FIC)

Type: non-profit business association of foreign investors

Objective: Improve investment environment for foreign and domestic companies through open, informal dialogue between different willing stakeholders

Address: 37, Svetogorska Street, 11000 Belgrade, Serbia

Tel.: +381 (11) 3035550

Fax: +381 (11) 3035560

Email: ivana.petrovic@fic.org.yu

Web: <http://www.fic.org.yu/>

Contact: Ivana Petrović - Executive Director

Serbian Agency for the Development of Small and Medium-sized Enterprises and Entrepreneurship

Type: Public SME Agency

Objective: Supports the development and interests of the SMEs in Serbia

Address: Toplicin venac br.19, Belgrade, Serbia

Tel.: +381 (11) 3346107

Fax: +381 (11) 3346601

Email: fice@sme.sr.gov.yu

Web: <http://www.sme.sr.gov.yu/>

Euro Info Correspondence Centre in Belgrade, Serbia (EICC)

Type: Network funded by EC and managed by the European Agency for Reconstruction in Belgrade
Objective: Support to SMEs in doing business with the EU; EICC is the link between European institutions and the local SME sector, preparing them for important changes
Address: Kneza Milosa 12/I, 11000 Belgrade, Serbia
Tel.: +381 (11) 3615993
Fax: +381 (11) 3615993
Email: office@eicc.co.yu; sstamenkovic@eicc.co.yu
Web: www.eicc.co.yu
Contact: Snezana Stamenkovic - Head

Balkan Community Initiatives Fund (BIF)

Type: domestic public benefit fund
Objective: The Fund provides financial support for the realization of activities and initiatives benefiting local communities. Cooperates with the business sector and civil society organizations to support the creation of strong partnerships between the two.
Address: Gospodar Jevremova 45/III, 11000 Belgrade, Serbia
Tel.: +381 (11) 2622511, 328 8721
Fax: +381 (11) 2629374
Email: office@bcif.org
Web: <http://www.bcif.org/>

BOSNIA AND HERZEGOVINA

Center for Environmentally Sustainable Development

Type: NGO
Objective: Contributes to environmentally sustainable development in BiH, through rising awareness activities, human resources development and education.
Address: Stjepana Tomića 1, 71000 Sarajevo, Bosnia and Herzegovina
Tel.: +387 (33) 207949
Fax: +387 (33) 207949
Email: coorsa@bih.net.ba; dragana.selmanagic@heis.com.ba
Web: <http://www.coor.ba/>
Contact: Dragana Selmanagic – National Project Coordinator (Pollution Prevention and Environmental Management System POEMS)

Global Compact Local Network

Type: International Organization
Objective: CSR Development
Address: Maršala Tita 48, 71000 Sarajevo, Bosnia and Herzegovina
Tel.: +387 (33) 563800 / 801
Fax: +387 (33) 552330
Email: info@undp.ba
Web: <http://www.undp.ba/>
Contact: Ms. Vanja Jancovic (vjancovic@undp.ba) or Mr. Fuad Curcic (fcurcic@undp.ba)

LiNK Association

Type: NGO
Objective: Association for Entrepreneurship and Job; promotes local economic development, through associationism, representation of the interests of companies and entrepreneurs and providing quality services.
Address: Adema Buća 32 Street, 88104 Mostar, Bosnia and Herzegovina
Tel.: +387 (36) 580151
Fax: +387 (36) 580151
Email: link.center@linkmostar.org
Web: <http://www.linkmostar.org>

ROMANIA

American Chamber of Commerce

Objective: One of the first initiatives to promote CSR concepts and practices in Romania

Address: RO-701161 Bucharest, 11 Ion Cimpineanu St., Sector 1, Romania
Tel.: +40 (21) 3158694 / 3124834
Fax: +40 (21) 3124851
Email: harasim@amcham.ro
Web: www.amcham.ro/ (currently unavailable)
Contact: Anca Harasim, Exec

Open Society Foundation Romania

Objective: Supports activities focusing on EU accession, NGO development, interethnic relations, education, child protection, domestic and EU legal issues, public health and economic development.
Address: Str. Caderea Bastiliei nr. 33, Bucharest 711391, Romania
Tel.: +40 (21) 2121101
Fax: +40 (21) 2121032
Email: info@buc.osf.ro
Web: <http://www.osf.ro/>
Contact: Mr. Gabriel Petrescu - Executive Director

Pro Vobis National Volunteer Center

Type: NGO
Objective: carries out several programs focusing on services to promote the concept and practice of volunteerism in the country and services for developing the necessary infrastructure.
Address: 21 Calea Dorobantilor, 3rd floor, 400117 Cluj Napoca Romania
Tel.: +40 264 412 897
Email: provobis@provobis.ro
Web: www.provobis.ro

National Agency for Small and Medium Sized Enterprises and Co-operatives (NASMEC)

Type: Public SME Support Institution
Objective: Improving the access of SMEs to financing, financial support of investments in equipment, new technologies and products, access to the results of research activities, facilitating cross-border co-operation, promoting Romanian products to export, and developing an appropriate business infrastructure. Conducted a project on increasing the level of quality assurance in SMEs sector from horizontal auto industry and setting up supply chains.
Address: 11 Poterasi St., Bucharest, Romania
Tel.: +40 (21) 3362820
Fax: +40 (21) 3361843
Email: publicinfo@mimmc.ro
Web: www.mimmc.ro

National Council of Small and Medium Sized Private Enterprises in Romania (CNIPMMR)

Type: Public SME Support Institution
Objective: Promoting and protecting the economic, production, commercial, financial, juridical and any other nature interests of small and medium private enterprises; Code of Ethics
Address: Piata Walter Maracineanu, nr. 1-3, intrarea 1, et. 1, sect. 1, 010155 - Bucharest, Romania
Tel.: +40 (21) 3126893 / 3126720
Fax: +40 (21) 3126608 / 3126624
Email: office@cnipmmr.ro
Web: <http://www.cnipmmr.ro/>

Romanian Economic and Social Council

Type: Public Institution
Objective: Advisory function in working out strategies and economic and social policies, and it plays a mediator role at industry and national levels in case of disputes between its social partners.
Email: angela@ces.ro

Romanian Society for Quality Assurance (SRAC)

Type: NGO - certification body
Objective: Promoting a quality culture through information sharing, training and management systems certification
Address: 14 Vasile Parvan Street, sector 1, Bucharest, RO - 010216
Tel.: +40 (21) 3136335
Fax: +40 (21) 3132380

Email: office@srac.ro
Web: <http://www.srac.ro/>

Integra Romania

Type: NGO (socio-economic development organization)

Objective: mainly anti-corruption and corporate governance assistance

Address: Republicii 28/A, 410025 Oradea, Romania

Email: integra@integraromania.ro

Web: www.integraromania.ro

ANNEX II – SUMMARY OF THE UNIDO PROJECT ON DEVELOPING CSR IN CROATIA

As a country in the process of stabilisation and accession to the European Union, Croatia is under strong pressure to bring itself into line with EU policies. One policy concept, which is rapidly growing in importance in European markets, is Corporate Social Responsibility (CSR). At the same time, Croatian enterprises, in particular small and medium-sized enterprises (SMEs) are under pressure to show customers and potential clients within the EU and elsewhere in the OECD countries, that they are practicing CSR. In order to respond to these twin needs to promote the concept of CSR in Croatia, the former UNIDO Director-General Carlos Magariños and Croatia's Minister for Economy, Labour and Entrepreneurship, Branko Vukelic, signed an agreement on the Development of Corporate Social Responsibility in April 2004. Since 1992 UNIDO has undertaken more than 20 projects in Croatia, mainly in the field of environment protection. This new project that emerged aimed at presenting evidence of the positive impact that CSR has on SMEs and the society, promoting the exchange of good management practices and of experiences on CSR, building capacities in CSR and disseminating a practical methodology with supporting tools that SMEs in Croatia can use to implement CSR concepts in a cost effective manner.

In particular, the project pursued the following objectives:

- To generate the evidence for the Croatian stakeholders in CSR that the concept can have a positive impact on business, targeting in particular SMEs, by disseminating good practices and experiences, and by making practical demonstrations.
- To build the necessary CSR-related capacity in the country so that industry support institutions can assist the business sector, especially export-oriented SMEs, to use a practical methodology and related tools that will enable them to cost-effectively comply with CSR requirements of global buyers and supply chain partners.
- To assist in the development of a strong, export-oriented SME sector, which is able to meet the environmental and social requirements of international customers in the most competitive way.
- To facilitate the preparation of a Croatian business agenda for CSR in partnership with public and private sector institutions and enterprises.

By doing so, the project actively supported the achievement of the Millennium Development Goals, in particular the goal of achieving environmental sustainability (MDG 7) and the goal of developing partnerships for development (MDG 8).

1. CONTEXT

The last twenty years have seen a radical change in the private sector's relationship both with the state and civil society. Globalisation, deregulation, privatisation and a redrawing of the lines between state and market have changed the basis on which private enterprises are expected to contribute to the public good. Meanwhile, the relationship between companies and civil society has moved from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society. These dynamics have led to the emergence of a new approach to CSR, with companies recognizing that reducing their impacts and addressing wider social and environmental problems will be crucial in securing their long-term business success.

Corporate Social Responsibility is now also being discussed and debated in the public policy sphere – on a global sphere the UN Global Compact is bringing together companies and UN agencies to address CSR, the UK has a Minister for Corporate Social Responsibility, the EU has recently published a Green Paper on the subject and 2005 has been designated the European Year of CSR.

Croatian businesses have had a difficult period in recent years, facing the economic burdens of destruction by war, loss of traditional markets, privatization and transition to a market economy. At the same time, those companies that have survived are faced with the economic and business challenges posed by the country's wish to accede as soon as possible to the EU. This upcoming accession highlights the urgent need for Croatian companies to obtain know-how and practical support in

upgrading themselves to meet the standards and requirements of potential buyers in the EU in order to be able to market their products successfully within the European marketplace. In this race to upgrade their environmental and social performance as the accession clock ticks, small and medium sized enterprises in particular are in need of assistance and guidance to meet environmental and social requirements put in place by actual and potential buyers.

In Croatia, CSR⁹³ is becoming more and more relevant, given the increased importance of the private sector, the rollback of state in favour of enterprises, the need to regulate businesses within a global market place and the growing strength of consumers and NGOs. The value of CSR has already been recognized by some leading Croatian enterprises that committed themselves to it and formed the National Business Council for Sustainable Development (BCSD). However, the Government did not dispose of an appropriate policy framework to coherently encourage and support the adoption of CSR practices by Croatian enterprises, and the companies lacked methods or capacities to adopt CSR in the most cost-effective manner. Apart from that, the way Croatian entrepreneurs were responding to these changed expectations and directions on social, environmental and economic performance has not been sufficiently investigated. There was therefore an urgent need not only to investigate already applied practices but also to further develop and promote the CSR concept in Croatia.

2. PROJECT APPROACH

This project sought to build the necessary national capacity able to provide practical support for SMEs in the area of environmental and social improvement, assisting them to assess their status and to identify and implement cost-effective improvement options, while not jeopardizing their overall competitive position in supply chains. In addition to that, the project supported the Government of Croatia and relevant public institutions in determining, on the basis of experiences elsewhere, what public policies best support the country's business community in its efforts to implement practical CSR strategies. These twin goals were addressed within the scope of this project through:

- Building capacity on CSR, its benefits, and its application;
- Promoting public policies in line with CSR practices;
- Building consensus on instruments to apply, measure and report CSR between the various parties involved, in particular considering the existing various national policy frameworks within a global dimension;
- Enhancing consumers' and investors' recognition of CSR;
- Building up "business cases" through demonstration projects in SMEs to increase awareness and knowledge about the potentially positive relationship between CSR and business performance; and
- Teaching and training.

Based on these considerations, the activities of this project were grouped into three phases: the assessment phase, the policy- and instruments-building phase and the CSR cases-building phase.

2.1. The assessment phase

Initially, an assessment was carried out in cooperation with BerganGea Communications L.L.P., which produced the report "2004 SME and Multi-Sector CSR Practices in Croatia – Development of the CSR Concept in Croatia"⁹⁴ with the objective to provide an overview of the status quo in the country in terms of CSR compliance and to identify possible target areas to focus on in the course of the planned project activities. This kind of survey dealt with the diffusion and perception of CSR in Croatia and compared similar experiences worldwide.

As the European Commission's 2001 "Promoting a European Framework for CSR - Green Paper" vision formed the basis for the Croatian Government's request to UNIDO for the development of the CSR concept in Croatia, the purpose of this report was also to define a basis for the development of

⁹³ It has to be noted at this stage that the term 'corporate' has a special meaning in countries like Croatia with a tradition of large state-run corporations, meaning that the scope of CSR can potentially be misunderstood. Therefore, the term 'responsible business practice' is more appropriate in the Croatian language.

⁹⁴ For further information on this study, please contact Mr. Kai Bethke (k.bethke@unido.org)

the CSR concept in Croatia with sections that facilitate CSR partnership brokering, strategy, project development and management and workshops. It set the ground for UNIDO engagement through:

- Defining the potential partners and their views, interests and objectives;
- Defining the CSR issues in Croatia in each sector;
- Defining CSR observations and recommendations on issues;
- Providing Public, Private, NGO, Media and CSR database information;
- Defining CSR partnerships and initiatives in each sector.

In order to avoid the duplication of efforts, UNIDO made also use of other investigations in that sphere to increase the knowledge base, such as a report called "*An overview of corporate social responsibility in Croatia*" (2004)⁹⁵ – a recent survey of CSR in Croatia conducted by the Prince of Wales International Business Leaders Forum (IBLF), in collaboration with the Academy for Educational Development (AED) and MAP Consulting. This research encompassed a review of existing literature, analysis of media coverage of CSR in Croatia, and interviews with representatives of over sixty companies, governmental institutions, business associations, expert bodies, non-governmental organizations (NGOs), and the media. That study found that there were significant clusters of CSR practice developing around environmental protection, human resource development and community involvement. Croatia has a rich legacy of local business practises, which can be seen as socially focused. Indeed, while 'CSR' is an imported term, many of its concepts and practises were already familiar to Croatian business community. However, the country's enabling environment for promotion of CSR was found to be weak and companies, in particular SMEs, lacked the know-how to apply CSR practices effectively.

Following this initial assessment of the situation in Croatia, UNIDO was engaged in the elaboration of another study called "*Towards a Croatian Business Agenda for Corporate Social Responsibility*" (June 2004) (see Annex I). This research went one step further as it dealt with the critical challenges to economic and social development in Croatia, and also identified the potential for CSR strategies to meet the needs of Croatian businesses and stakeholders in these areas. It further highlighted more precisely potential public policy options for promoting CSR in the Croatian context. In this study the Responsible Competitiveness Index (RCI) was recalculated, including Croatia and other SEE countries covered by the Global Competitiveness Report 2002-2003 developed by the World Economic Forum. In this analysis, Croatia ranked 7th out of the 10 peer countries for which data was available in terms of corporate responsibility. Croatia scored 54 out of 100 in corporate governance, well ahead of Bulgaria and Romania (the EU average is 66). Regulatory frameworks were found to certain extent satisfactory, while de facto corporate governance practice remains quite poor, with company law rating more extensive than effective. As of mid-1993, the country had not engaged with the Kyoto Protocol, nor had a single business signed the UN Global Compact. Apart from that policy dialogue between sectors did not happen on a regular basis.

For Croatia, strong points in the RCI study included:	Less strong points identified in the RCI study further included:
<ul style="list-style-type: none"> • Good workplace safety, employment laws and training; • Reasonable engagement with civil society; • Good contributions to public finance through corporate tax. 	<ul style="list-style-type: none"> • Problems with business ethics and corruption; • Difficulties with public policy formulation; • A limited uptake of Environmental Management Systems.

2.2. The policy- and instruments-building phase

⁹⁵ For further information on this study see <http://www.iblf.org/resources/general.jsp?id=48>

In November 2004, UNIDO organized a multi-sector workshop on the "*Development of Responsible Business in Croatia: The Need for a Comprehensive Policy Framework*" (see Annex II), in cooperation with the Government of Croatia and the Croatian Cleaner Production Center in Zagreb. This workshop discussed – based on the preliminary research findings – how to develop a comprehensive policy framework for responsible business, building on the progress made to date by individual businesses and cross-sector partnerships.

In this session, participants also discussed international and Croatian evidence that responsible business practice can improve quality of life, enhance the environment, and build competitiveness, making individual businesses more productive, sectors and clusters more innovative and overall economies more attractive.

The meeting confirmed a recent assessment that CSR is both promoted and practiced to certain extent throughout the Croatian business community. However, corporate social responsibility itself could not at this point be considered as a dominant trend in doing business in Croatia, nor did it significantly influence the public perception of the private sector's social role⁹⁶.

Needs identified in the course of the workshop:

- Building the business case for SMEs;
- Assistance in the elaboration of a 'national responsible business strategy' pulling together the wide range of existing policies and filling in gaps with new policy;
- Strengthening the legal framework to support and facilitate CSR initiatives; and
- Setting-up a national focal point.

With regard to national policy, tools and instruments (including benchmarks) for enhancing CSR practices in Croatia and reporting them, the project provided a variety of suggestions obtained through an interactive consultative process with the participation of the main national stakeholders. The suggestions of UNIDO in that respect can be summarized as follows:

The Croatian government should play a decisive role at each of the three levels of government involvement in CSR: 1. Creating an enabling environment for responsible competitiveness, 2. Promoting CSR good practises and, 3. Using CSR as a mechanism to achieve specific public policy goals. This can be achieved through mandating (legislation/standards), facilitating (incentives, platforms, etc.), endorsing (approval of private sector initiatives) and partnering (multi-sector).

With regard to the first level, the Croatian Government must strengthen the following key general enablers: corporate governance, ethical business practices, progressive policy formulation, building human capital, engagement with civil society and environmental management. The Croatian legal framework needs further coordination to help CSR initiatives flourish. In addition to legislation, the Government must ensure the full implementation of existing and new regulations. Other supportive incentives include building CSR requirements into public tenders and requiring all state-run businesses to produce responsibility reports on a regular basis.

Beyond providing a basic enabling environment the government should support the emerging CSR movement in Croatia by endorsing and facilitating initiatives, which enable CSR best practises to achieve wider uptake by the country's businesses. At the same time, the Government should draw on the potential of multi-sector partnership approaches, involving business alongside civil society and public sector organisations. There is also a role for setting up a National Focal Point to undertake the following tasks:

- Run a CSR campaign;
- Undertake research activities;
- Maintain operational independence;
- Hold regular meetings on implementation of the strategy;
- Engage SMEs, by for instance with the Chamber of Economy Small Business Department and by providing case studies;
- Creating initiatives to encourage firms to join the UN Global Compact;

⁹⁶ IBLF, Academy for Educational Development & MAP Consulting, 2004

- Coordinate action from other stakeholders;
- Set up a CSR monitoring system;
- Promote public awareness (awards for best practice, better media coverage);
- Maintain a one-stop shop website for CSR issues in Croatia;
- Network with regional partners; and
- Represent Croatia in the CSR Europe network.

One of the key areas where CSR can contribute to a country's strategic development is through the recruitment of the private sector itself to overcome obstacles, which stand in the way of competitiveness and a sound business environment. Key issues, in which there are strong possibilities for multi-sector processes to enable the private sector to play a greater part in the national development strategy and competitiveness of the country are principally the following: European readiness (EU accession), responsible restructuring and enterprise development, anti-corruption and good governance and investing in Croatia's human capital.

The role that the Government can play in promoting effective CSR practices must be seen alongside the complementary actions of the private sector itself, as well as other stakeholders (NGOs, trades unions, media, academia, etc.). The traditional concept of the duty of these different players in the regulation of business behaviour is that NGOs lobby, government enacts and businesses react. However, individual businesses do not have to wait for such government action to realize the benefits of cross-sector working. For that reason UNIDO also worked closely with businesses, providing them with the necessary know-how and CSR tools and focused on addressing the issues that are material to their performance and their impact on society. This was achieved partly through demonstration projects as described in the next project phase.

2.3. The CSR cases-building phase

All the experiences, findings and results acquired in the course of prior project activities were applied in this phase through UNIDO's *TBL (Triple Bottom Line)⁹⁷ Approach* to selected companies in order to demonstrate with practical examples the concrete benefits of CSR. The results achieved (together with recommendations for implementation, lessons learned and a list of experts) form a learning module that can be implemented by businesses with similar economic backgrounds (see Annex III). The project activities related with the introduction of CSR in the selected companies were implemented by the Croatian Cleaner Production Centre (Cro CPC), in cooperation with UNIDO experts, through training, technical support and consulting.

The methodology for the implementation of CSR improvements at company level, the TBL approach, combines the application of tools in three main areas: the *productivity domain*, the *social domain* and the *environmental domain*.

For this project, the three approaches were combined to contribute jointly to the enhancement of the triple bottom line. Work at company level started with a questionnaire directed to employees, aimed at assessing the current situation with regard to each of these domains and was followed by training and coaching to identify priority areas for the implementation of measures. Benchmarking was done with international, European and Croatian standards and practices to support companies in their work.

⁹⁷ The Triple Bottom Line approach, initially phrased by Elkington in 1999, goes beyond the traditional "financial bottom line", and includes two additional components of corporate disclosure and reporting: the "social bottom line" and the "environmental bottom line". While it is well understood that companies have to realize gains on its financial bottom line in order to be sustainable, the approach is based on the assumption that the bottom line, defined as the return on investment, should not only take into account financial capital, but include also "social capital" and "natural capital".

In the productivity field, the objective was to support a more efficient and systematic organization of the workplace and improve the efficiency of production processes, based on Total Quality Management. Developed in Japan, this method assumes that no effective and quality job can be done without a clean and safe environment and behavioral rules. This methodology allows to establish a participatory process of change aimed at improving the organization of the workplace and initiating continuous improvement within the production process. Coaching was provided on this methodology to support the companies in the implementation of certain measures.

In the social domain, emphasis was given on the internal dimension of CSR, related to enhancing employees - management relations, as well as working conditions through the promotion of enhanced labor standards.

In the environmental field, the aim was to introduce a cleaner and more rational use of the companies' resources and to train firms on methods to reduce waste and emissions at the source. Several of the participating companies had already worked with the Croatian Center for Cleaner Production on implementation of the cleaner production methodology in their processes. The companies were required to follow up indicators related to their environmental impact, based on UNIDO REAP software.

The *Responsible Entrepreneurship Achievement Programme (REAP)* (see Annex IV) is a software tool, which enables companies, in particular SMEs, to implement CSR practices in a cost-effective manner through benchmarking, analyzing and improving company performance in the financial, environmental and social areas. It can be seen as an operative guide for businesses, for both the analysis of the baseline situation and the documentation of the changes and improvements achieved. The programme is based on the ten principles of the UN Global Compact and is designed to prepare reports that enterprises can use to demonstrate to clients, business partners and other stakeholders the efforts undertaken to improve CSR concepts. REAP lays a stable and solid ground for a broad implementation of responsible business practices, responsible supply chain management, and a national and local business-related policy framework, geared towards sustainable industrial development. REAP was introduced to the participating companies through training as a tool to document their performance and the measures adopted in the promotion of their triple bottom line initiatives.

3. REGIONAL CSR AGENDA AND FORUM

Based on the Croatian experience, UNIDO has been asked to extend the CSR programme to other countries in the region, such as Albania, Bosnia and Herzegovina, Bulgaria, Macedonia, Romania, Serbia, Montenegro and Slovenia.

In order to discuss the framework for such regional programme, UNIDO, jointly with the Government of Croatia, the Croatian Cleaner Production Centre and the support of the Government of Hungary, organized a Regional Forum on Corporate Social Responsibility for Small Businesses in Central and Eastern Europe, which took place in March 2006. The Forum brought together political leaders, business executives and experts, to launch a broad discussion on policy and company interventions in the field of CSR. More specifically, intention was to generate commitments for creating comprehensive CSR policies allowing countries in the region to better use its potentials, to support existing initiatives in public-private cooperation, and to provide strong business cases to be examined by the business sector representatives.

The principle objectives of the Forum were to present and discuss the achievements of the Croatian CSR project and to explore possibilities for the extension of the concept to other countries in the region. The Croatian project team reported on attained improvements, especially in environmental area, where implemented principles of cleaner production resulted in reduction of waste and pollutants, and brought sound evidence that Improved performance in the fields of productivity, environmental protection and relations with employees generate financial benefits. Participants acknowledged with satisfaction the outcomes of the Project, and evidences on improvements provided by Croatian SMEs fostered a vibrant debate on modalities for the transfer of Croatian experiences to other countries in region. More specifically, this Regional Forum focused on the question how a regional approach can help to disseminate know-how and expertise on implementing CSR principles in small and medium sized enterprises.

Given the strategic importance of the CSR development in the Region, especially concerning the processes of the accession to the EU, the forum recommended the setting up a Regional CSR Centre, that serves as a platform to foster the exchange of CSR experiences and information on best practices.

CASE STUDIES

Cleaner Shoe Production at Valeo in Bulgaria

Project Title: Cleaner Shoe Production: Environmental Friendly Products

Leader: Valeo Company, Bulgaria

Partner: BEM Systems, Inc. (New Jersey, USA)

Location: Plovdiv and Sopot, Bulgaria

Project Duration: May 2001 – January 2002

EcoLinks Project Investment: Total Project Investment: \$ 72,500; EcoLinks Grant Support: \$50,000; Project Team Cost Share Contribution: \$22,500

Best Practice: Transferable Solution

Valeo, a sports shoes and accessories manufacturer in Bulgaria, demonstrates in this Best Practice a successful methodology for reducing the emission of volatile organic compounds (VOCs). With the support of an EcoLinks Challenge Grant, Valeo partnered with an American firm called BEM Systems to design a Cleaner Production program for reducing the environmental impacts of shoe manufacturing. With a clear implementation plan, Valeo then contributed \$12,000 of its own funds to follow through on making important improvements to reduce VOC emissions.

Project Summary

Valeo produces and exports approximately 2.200.000 pairs of quality sports and utility footwear each year at its four production sites: Plovdiv, Sopot, Gotse Delcev, and Dupnitsa. In manufacturing this vast quantity of shoes, Valeo was experiencing a number of environmental problems including uncontrolled VOC emissions and insufficient management of volatile raw and waste materials. Approximately 60 tons of VOCs per year were being released from three of Valeo's four production sites. It used two times as much glue, solvent, and cleaning product per shoe produced compared to similar manufacturers in the European Union. While environmental management was improving at Valeo, several improvements still needed to be made especially in order to comply with new environmental legislation in Bulgaria. With the support of an EcoLinks Challenge Grant, Valeo collaborated with a US partner, BEM Systems, Inc. to develop and implement ways to improve the environmental performance of shoe production at several of the Valeo production sites. An assessment was conducted regarding production and product quality issues, VOC production, and the handling of hazardous materials. Alternatives to reduce VOC emissions were developed and implemented. Several hundred employees at Valeo and other shoe manufacturing facilities in the region were trained on how to improve procedures regarding the handling of hazardous materials. At the end of the project, VOC emissions were already reduced by 14% with additional reductions anticipated. With implementation of the proposed changes regarding the ventilation system, for example, VOC emissions will be reduced by 40 %. The project set targets for an additional 35% reduction in VOC emissions by the year 2007 when the company expects to use the same quantity of glues and solvents per pair of shoes as EU manufacturers. With implementation of the proposed measures developed by the project, the use of glues, solvents and cleaning agents are also reduced significantly to generate important environmental and economic benefits. At Valeo in Plovdiv, for example, implementation of the proposed program reduces the use of solvents by 50% and the consumption of cleaning agents by 20%. Due to the reduced consumption of glues and solvents, Valeo generates savings in raw material purchases as well as avoided penalty costs associated with non-compliance of new regulations. Valeo can save up to \$21.000 per year by implementing cleaner production strategies as outlined by this project.

Project Activities

This project involved a series of activities including conducting an assessment of the current environmental situation at the sites, developing alternatives for Cleaner Production, evaluating the alternatives in term of both environmental and economic considerations, and developing guidelines for improvements, all of which culminated in the development and initiation of a sound Implementation Plan.

1. Conducted a preliminary assessment of Valeo.

Action: An assessment of Valeo was conducted at multiple sites of the company including Plovdiv, Sopot, Gotze Delchev, and Dupnitsa. The assessment reviewed the following items:

- Production process · Use of volatile materials (e.g., adhesives, solvents, etc.)
- Product quality (at the intermediate and final stages of production)

- Handling of stored materials
- Air quality, including emissions (especially VOC emissions)
- Availability of treatment facilities
- Documentation practices

The results of assessing air and water quality and waste production were reviewed and compared with Bulgarian environmental standards. In the event that Bulgarian standards were not yet established (e.g., VOC regulations, documentation procedures, etc.), EU and US standards were applied. The assessment revealed the quantities and main sources of VOC emissions at Valeo. Gotze Delchev released the highest amount of VOCs at 36% of the total share of VOC emissions for all of Valeo. The least polluting site was Sopot that produced only 26.1%. It was discovered, furthermore, that 85% of the VOC emissions at each site resulted from the use of X Glues.

Product(s): 1) Data on air and water quality and waste production at Valeo 2) Evaluation of air, water, and waste data.

2. Established alternatives for cleaner production.

Action: Based on the data collected and evaluated in Activity 1, the EcoLinks project team developed alternative strategies for improving environmental and operation practices at Valeo. The goal was to establish alternatives that would allow for full compliance with pending Bulgarian environmental standards (to be enforced in the next two years). The alternatives included the following:

1. Substitution of certain materials (i.e., adhesives and solvents);
2. Addition of treatment and control equipment;
3. Technological improvements in "hot spots";
4. Optimization of operations; and
5. Combination of Alternative 4 and one other preceding alternative (1-3).

BEM Systems Inc. focused especially on developing alternatives to using the adhesive X Glue and the solvent Poliscarpe. A total of 17 alternative adhesives and eight alternative solvents were considered.

Product(s): Alternatives for Cleaner Production

3. Conducted an environmental evaluation and a cost benefit analysis of each alternative and developed recommendations.

Action: Each alternative was evaluated in terms of environmental impacts and costs using the following criteria:

- Improved worker health and safety.
- Maintenance of production in view of pending Bulgarian environmental legislation.
- Degree of impact on Valeo facilities in relation to the future permitting system.
- Possibilities for implementing Cleaner Production Best Practices without jeopardizing product quality.
- Sufficient funding opportunities.
- Ease with which each alternative could be implemented (i.e., time requirements).

The challenges associated with upcoming Bulgarian regulations were identified. They included the introduction of taxes, penalties avoidance, and minimizing waste such as leather parts and hazardous solvents and glues. Risk assumptions were evaluated. The maintenance of product quality was considered regarding the application of substitutes for hazardous adhesives and solvents. Given that the technological equipment at Valeo is not old or physically deteriorated, the purchase of replacement technology was given low priority for financial reasons. Some procedural improvements, such as leather cutting, were highly feasible and given great consideration.

Based on the environmental and economic analysis of the proposed alternatives, the following recommendations were made:

- 1) Substitution of glues, solvents, and cleaning agents with more environmentally sound alternatives.
- 2) Purchase of equipment (i.e., freezing machine) for eliminating vapors and spills of hazardous materials to be used in all workspaces where glues and solvents are used.
- 3) Installation of a cleaning system for an extraction ventilation system.
- 4) Reduction of leather waste through improved cutting approaches.

Product(s): 1) Environmental and cost benefit analyses 2) Report on project activities 3) Recommendations 4) Data sheets on environmentally sound and cost effective glues and solvents.

4. Established an implementation program.

Action: Long-term and short-term implementation tasks were established. Proposed measures were developed and assessed with special attention paid to the impacts of each measure on emissions reductions. Valeo purchased an environmentally friendly machine for reducing fumes associated with glue operations. The installation of a ventilation/extraction system was initiated. The X Glues were substituted with Be Be Bond glue, which is less hazardous in terms of VOC production, yet still sustains the quality of the product.

5. Developed guidelines for cleaner shoe production.

Action: Based on the information gathered throughout the project, seminar materials and handouts on cleaner shoe production guidelines were prepared including information on how to handle hazardous materials such as glues and solvents. Materials were disseminated to more than 400 employees in the shoe production branch. Valeo employees were presented with some of the Best Practices including: Log Out Tag Out (LOTO); Spill Prevention Control and Countermeasures (SPPC), and Hazardous Material Spill and Leak Response. Each Best Practice promoted significant improvements. The Lock Out Tag Out Program (LOTO) was developed to protect employees from accidents and injuries caused by accidental start-ups or release of energy by equipment during maintenance operations. The Spill Prevention Control and Countermeasures (SPPC) Plan includes general facility information, definitions of key SPPC terms, an applicability section including a regulatory framework, a description of existing storage facilities for petroleum and hazardous materials, and a spill history and security outline. A section on procedures describes spill control measures, transfer and dispensing operations, and standard operating procedures. The Hazardous Material Spill and Leak Response Program handout describes actions that employees (including supervisors, maintenance workers, custodial workers, police officers, and other persons designated to manage and clean up spills) should take in the event that they are exposed to chemical and biological hazards from incidental hazardous material spills and leaks. Product(s): Production and dissemination of materials on handling of hazardous materials including Log Out Tag Out; Spill Prevention Control and Countermeasures Handbook, and Hazardous Material Spill and Leak Response.

6. Conducted Training Seminars.

Several seminars were conducted involving more than 300 Valeo employees. Employees were trained through seminars on:

- Relevant production issues;
- Capacity to implement the proposed measures developed by the project;
- New environmental legislation; and
- Handling and operations regarding hazardous materials.

Product(s): Several short on-site seminars involving 300 employee participants.

Project Benefits

There are several benefits generated by this project. Hundreds of Valeo employees are now trained in more environmentally friendly procedures for handling hazardous materials associated with footwear production. VOC emissions are now managed more effectively and less hazardous glue, solvent, and cleaning agent substitutes are being used where possible. Worker safety has been improved due to improved working conditions. Savings have been generated from improving the efficiency of footwear production.

Capacity Building Benefits

Due to the trainings and outreach efforts that were conducted as part of this project, four hundred employees from several shoe manufacturers were trained in environmental management practices. With the strengthening of skills and experience amongst Valeo employees, Valeo production facilities are implementing a Cleaner Production methodology. Employee awareness has been raised through the multiple seminars on the handling of hazardous materials. Accidents involving hazardous materials will be handled more safely reducing detrimental impacts on worker health and safety. Through the transfer of know-how from the US partner (BEM Systems), Valeo learned how to evaluate and improve the current environmental situation at its four facilities. With this knowledge, Valeo could start implementing organizational and process changes by applying no-cost and low-cost measures that reduce VOC emissions and improve the cost effectiveness of the manufacturing process. Through this project, Valeo furthermore became more aware of the benefits of obtaining ISO 14001 certification and started preliminary preparations towards achieving this.

Environmental Benefits

Implementation efforts developed as part of this EcoLinks project bring Valeo into compliance with Bulgarian environmental and health and safety regulations (both current and proposed). New equipment and cleaner production approaches reduce both the use and emission of volatile substances used in the shoe production process. With the purchase of new equipment (i.e., freezing machine, especially useful for operations involving glue and solvent usage) and the installation of a new ventilation system in several Valeo shops in Plovdiv, Valeo reduces VOC emissions significantly. With a new freezing machine for the glue application process, for example, VOC emissions were reduced by 70%. Additionally, the use of solvents at Valeo in Plovdiv has been reduced by 50%, and the consumption of cleaning agents has been reduced by 20%. For the entire Company, VOC emissions are reduced by a total 14,1% annually. Total annual VOC emissions from the Plovdiv site are reduced by 15,5%. The total annual reduction in VOC emissions from glues at the Gotse Delchev site is 11,6%. At the Sopot site, VOC emissions are reduced by 10,8% per year.

Economic Benefits

This project not only provides significant environmental benefits but also generates notable economic benefits. In addition to improving Valeo's market competitiveness that can increase the Company's revenues, this project generates a good return on improvement investments and allows the Company to avoid costly waste disposal and non-compliance charges. With implementation of a Cleaner Production strategy, the purchase of the freezing machine, and a reduction in certain waste management charges, Valeo saves a total of \$64.000 per year. Through a more efficient and environmental approach to shoe production, Valeo saves \$21.000 per year. The cost of manufacturing shoes was reduced most notably by decreasing the quantity of glue used per shoe by 12,5%, solvents by 50%, and cleaning substances by 20%. Valeo purchased a freezing machine for the Plovdiv site in the amount of \$12.000 during project implementation. In addition to reducing VOC emissions by 70% in the area where glues are used, the economic benefit generated from this investment is about \$42.000 per year. An additional \$1.000 per year is saved by avoiding charges paid to the waste management company for the discharge of X Glue packaging boxes.

Lessons Learned

The following lessons were learned during this project:

- Given that practices to limit VOCs are not yet in place in Bulgaria, it was helpful to learn about US practices to limit VOC emissions.
- In the event that certain equipment is not available as planned, alternatives might be sought. For example, the US partner was not able to bring VOC measuring equipment. Thus, an alternative available in Bulgaria, the Balance Method Emission Assessment (an EU method), was used.
- By implementing the Cleaner Production measures sooner than the 2007 deadline for Bulgaria's regulatory introduction of Directive 1999/13/EU, the company could immediately gain a competitive edge in the European and world market.
- Commitment goes a long way in making a project successful. Valeo is committed to achieving Cleaner Production standards and contributed \$12.000 of its own funds to the implementation phase outlined by this project.

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