

# NATIONAL AGENDA

## ON CORPORATE SOCIAL RESPONSIBILITY FOR THE REPUBLIC OF MACEDONIA

2008–2012

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# ACKNOWLEDGEMENTS

## **Working Group of the national Coordinating Body on CSR for preparation of the CSR Agenda**

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- Goran LAZAREVSKI, Coordinator
- Vladimir PETKOVSKI, Prof. Dr.
- Aleksandar NIKOLOV
- Beti POPOVA
- Mile BOSHKOV
- Nikica KUSINIKOVA
- Dimitar BOGDANOSKI

## **Authors**

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*The following members of the Working Group authored the content of this publication:*

- Vladimir PETKOVSKI, Prof. Dr.
- Aleksandar NIKOLOV

## **External contributors**

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- Dr. Lyra JAKULEVIČIENĖ, Head of Office, UNDP Lithuania

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# ACRONYMS

<b>AA1000</b>	AccountAbility 1000
<b>CSR</b>	Corporate Social Responsibility
<b>EC</b>	European Commission
<b>EMAS</b>	Eco-Management and Audit Scheme
<b>EMS</b>	Environmental Management System
<b>EU</b>	European Union
<b>GC</b>	United Nations Global Compact
<b>GRI</b>	Global Reporting Initiative
<b>HACCP</b>	Hazard Analysis and Critical Control Points
<b>ILO</b>	International Labour Organization
<b>ISO</b>	International Organization for Standardization
<b>MNC</b>	Multi-National Corporation
<b>NGO</b>	Non-governmental organisation
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>OHSAS</b>	Occupational Health & Safety Assessment Series
<b>SA8000</b>	Social Accountability 8000 Standard
<b>SME</b>	Small and Medium-sized Enterprise
<b>SRI</b>	Socially Responsible Investment
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNGC</b>	United Nations Global Compact
<b>USAID</b>	US Agency for International Development



# CSR AS A FRAMEWORK FOR THE POLICIES

## A. THE CONTEXT FOR CSR

Today it is a widely held belief it is no longer enough for companies to say that their only concern is to make profits for their investors, when they are undertaking operations that can fundamentally affect (both negatively or positively) the lives of communities. Corporate Social Responsibility (CSR) can be defined as “success in business activities achieved not only through abiding by the laws and regulations, but also through an approach that achieves balance between the economic, environmental and social goals in a manner that is beneficial to the citizens, the community and the society.” It is about enterprises deciding to go beyond minimum legal requirements and obligations stemming from laws and collective agreements in order to address societal needs. As such, CSR has become an increasingly important concept both globally and within the EU, and it relates to sustainable development, stimulating competitiveness, economic growth and job creation.<sup>1</sup>

### 1. THE EU CONTEXT FOR CSR

Corporate social responsibility, as promoted by the European Commission, is a **concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.**<sup>2</sup> Still, when investigating the actual understanding of the concept, as regards its practical application **in the individual EU countries**, it becomes obvious that the definition and the terminology differ.

The European Commission sees CSR as part of the business contribution to sustainable development and to

the European Growth and Jobs Strategy, as CSR has the potential to contribute to various common goals, such as social cohesion, economic competitiveness and a more rational use of natural resources. The latest **EU Strategy for Sustainable Development** of 2006 pinpoints the necessity that for reaching sustainability an organisation must be financially secure, minimise its negative environmental impacts and act in conformity with societal expectations.

The EU has undertaken to integrate economic, social and environmental considerations into its policies and actions<sup>3</sup>, as envisaged by the CSR concept. So far, CSR has been embedded in EU’s employment and social affair policy, enterprise policy, environmental policy, consumer policy, public procurement policy and external relations policy.

Different Directorates General (DGs) of the European Commission have been dealing with the issue of CSR. Especially the DG Employment, Social Affairs and Equal Opportunities, the DG Enterprise and Industry, DG Trade and DG Environment are setting a variety of activities in the field of CSR in relation to their main responsibility, for example by considering CSR in the European trade policy, in environmental agendas or in the field of labour market integration of disadvantaged groups. A special **focus on CSR among SMEs** is set by the DG Enterprise and Industry.

There is a wide range of **EU networks** in the field of CSR, such as:

- **The European Multi-stakeholder Forum on CSR** that brings together EU organisations of employers, business networks, trade unions and NGOs in order to improve knowledge on the relationship between CSR and sustainable development, and examine the possibility for establishing common EU principles for CSR practices and instruments;

<sup>1</sup> Communication from the Commission concerning Corporate Social Responsibility – Implementing the Partnership for Growth and Jobs: Making Europe a pole of excellence on CSR, COM(2006)136 Final, 2006.

<sup>2</sup> Commission Green Paper “Promoting a European Framework for Corporate Social Responsibility”, COM(2001)366 Final, 2001.

<sup>3</sup> As outlined in the strategy for sustainable development adopted by the European Union at the Gothenburg Summit in June 2001, and in the Charter of Fundamental Rights of the European Union proclaimed in Nice in 2000.

- **The European Alliance for CSR** that gathers large EU enterprises to further promote and encourage CSR, and mobilise their resources and capacities and those of their stakeholders in the interests of sustainable development, economic growth and job creation;
- **CSR Europe**, a business network consisting of leading multinational corporations and other companies devoted to promoting CSR;
- The **European Environment and Sustainable Development Advisory Councils** (EEAC), collaboration between the councils set up by European governments to provide independent and scientifically based advice on environmental policy and sustainable development;
- Various **networks devoted to promoting business ethics**, including social and environmental engagement (e.g. the European Business Ethics Network – EBEN, Social Venture Network Europe – SVN Europe, or the European Social Investment Forum – Eurosif).

The Commission is committed to further promote the integration of CSR principles into EU policies, to publish an annual report on CSR, and set up an interdepartmental group on CSR within the Commission to ensure the coherence of EU policies.

The Commission will further promote CSR in eight areas: awareness raising and best practice exchange, support of multi-stakeholder initiatives, cooperation with Member States, consumer information and transparency, research, education, small and medium-sized enterprises as well as considering the international dimension of CSR.

## 2. THE GLOBAL CONTEXT FOR CSR

### 2.1. Selected CSR initiatives on international level

At international level, CSR reference standards have been set by a variety of actors. For example:

- The United Nations launched the initiative “**Global Compact**”, which is a code of conduct encompassing ten principles in the areas of human rights, labour, the environment and anti-corruption as well as a voluntary international network of companies and non-corporate actors that have committed themselves to these sustainable and socially responsible practices.
- The UN also initiated the establishment of the **Principles for Responsible Investment** intended to promote

the need and the business case for supplementing investors’ financial objectives with social, environmental and corporate governance considerations in the selection, realization and retention of investment, and the responsible use of rights obtained through investment.

- The OECD developed **Guidelines for Multinational Enterprises** which provide voluntary principles and standards for responsible business conduct in a variety of areas including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition and taxation.
- **The World Business Council**, an international business network that aims to develop closer co-operation between businesses, government and other organisations concerned with the environment and sustainable development.
- Organizations that promote **international certificates, standards and management systems**, like: ISO 14000 (for environmental management systems); ISO 26000 (under development) that will provide guidelines for social responsibility; international fair trade or environmental initiatives (e.g. the Fairtrade Labelling Organizations International).
- **The Global Reporting Initiative** (GRI), a multi-stakeholder process and independent institution with a mission of developing and disseminating globally applicable Sustainability Reporting Guidelines.

### 2.2. The UN Global Compact

The aforementioned Global Compact (GC) is a multi-stakeholder voluntary initiative promoted by the UN. Participants pledge to abide by its ten principles, rooted in key international instruments, in the areas of human rights, labour standards, environment and anti-corruption.

The GC principles are based on the **Universal Declaration of Human Rights** (UDHR), the **ILO Declaration on Fundamental Principles and Rights at Work**, the **Rio Declaration on Environment and Development**, and the **UN Convention Against Corruption**. Being drawn from internationally agreed and accepted values and priorities they constitute a universal and comprehensive framework for CSR.

The GC calls on companies to ‘support and respect’ human rights ‘within their sphere of influence’ in its *first principle*. The guidelines to the principles indicate that these rights are based on the UDHR which was elaborated in the International Covenant on Economic and Social Rights and the International Covenant on Civil and Political Rights. This includes basic rights such as liberty, security and freedom from cruel, inhuman or degrading treatment or punishment, freedom of movement, of religion, of expression as well as a right to education, food, shelter, privacy, right to work and just and favourable conditions of work, right to social security, right to family life and so forth. *Principle two* obligates companies to ensure that they are not complicit in human rights abuses. The next four principles address labour rights and obligate companies to: (3) uphold the freedom of association and the right to collective bargaining, (4) eliminate forced labour, (5) abolish child labour, (6) eliminate discrimination. These are based on the ‘core labour standards’ identified by the 1998 International Labour Organization’s Declaration of Fundamental Principles and Rights at Work.

*Principle 7* calls on businesses to take a ‘precautionary approach to environmental challenges’. The key element here is the idea of prevention rather than cure. In other words, it is more cost-effective to take early action to ensure that irreversible environmental damage does not occur than to try to remedy it once it has happened. The following two principles also deal with the environment obliging businesses to: (8) undertake initiatives to promote greater environmental responsibility, and (9) encourage the development of environmentally friendly technologies.

Finally, the *tenth principle*, calls on businesses to work against all forms of corruption.

Businesses and civic society organizations wishing to join the UN Global Compact, which has grown to become the world’s biggest voluntary network for corporate social responsibility, are asked to simply send a letter to the UN Secretary General expressing support for the Global Compact and its principles. An organization that signs-on to the Global Compact specifically commits itself to:

- changing operations so that the Global Compact and its principles become part of management, strategy, and day-to-day activities;

- publish in its annual report or similar public report (e.g. sustainability report) a description of the ways in which it is supporting the Global Compact and is striving to adhere to its principles, and
- publicly advocate the Global Compact and its principles through various communication channels, such as press releases, speeches, etc.

The Global Compact has also created a number of national networks of members, in order to facilitate learning and exchange of experiences in the implementation of the principles, and create opportunities for members to undertake collective action on local level. In Macedonia, the Global Compact was launched in 2004, and over the years the local network has organized numerous educational events strengthening the capacities and facilitating interaction among participants.

### 2.3. The UN Principles for Responsible Investment

Launched in 2006, the UN Principles for Responsible Investment complement the UN Global Compact. They are a set of aspirational statements to which investment organizations can voluntarily commit to and which outline possible actions for incorporating environmental, social, and corporate governance (ESG) issues into investment decision-making and ownership practices.

#### Overview of the UN Principles for Responsible Investment

Where consistent with their fiduciary responsibilities, institutional investors, investment banks and investment advisers will:

1. incorporate environmental, social, and corporate governance (ESG) issues into investment analysis and decision-making processes;
2. be active owners and incorporate ESG issues into their ownership policies and practices;
3. seek appropriate disclosure on ESG issues by the entities in which they invest;
4. promote acceptance and implementation of the Principles within the investment industry;
5. work together to enhance their effectiveness in implementing the Principles;
6. each report on their activities and progress towards implementing the Principles.

The Principles are based on the premise that ESG issues can affect the performance of investment portfolios, and their incorporation into investment practices can lead not only to better long-term financial returns, but also to a closer alignment between the objectives of institutional investors<sup>4</sup> and those of society at large.

## 2.4. OECD Guidelines for Multinational Enterprises

The Guidelines for Multinational Enterprises published by the Organization for Economic Co-operation and Development (OECD) are the most elaborated and comprehensive set of principles, i.e. code of conduct for responsible business. The Guidelines were negotiated by representatives from the governments, business associations, trade unions and some civil society organizations and are meant to help multinational companies fulfil their social and regulatory expectations. They are also aimed at highlighting the contributions that multinationals can make to the economy, society and environment. Outside of their preamble, the Guidelines do not make explicit reference to any international human rights instruments although they do obligate companies to respect human rights 'consistent with the host government's international obligations and commitments'.

The OECD Guidelines differ from other specifications such as the Global Compact principles in that they provide significantly more detail and include suggestions regarding practical implementation. Although they are non-binding on companies, they are unique in that firstly, OECD member states are obligated to promote them amongst companies operating from or within their borders and secondly, they were agreed upon multilaterally.

Official recognition at government level by OECD member states and by certain non-member states and the possibility of recourse to national contact points in the event of infringements make the Guidelines considerably more authoritative than most other sets of principles. The national contact points, in most countries based in the ministry responsible for economic policy, provide impartial mediation in conflicts between business and non-governmental organisations.

<sup>4</sup> An organization whose primary purpose is to invest its own assets or those held in trust by it for others. Includes banks, insurance companies, pension and investment funds.

## Overview of the OECD Guidelines for Multinational Enterprises

### General policies:

- sustainable development, respect for human rights, encouragement of local capacity building, etc.

### Disclosure:

- publication of an annual report, disclosure of information about social and environmental issues, etc.

### Employment and industrial relations:

- compliance with the principal standards for working conditions issued by the International Labour Organization (ILO), etc.

### Environment:

- establishment of environmental management systems, assured transparent environmental reporting, adoption of a precautionary approach, etc.

### Combating bribery:

- rejection of bribes, transparency concerning measures to combat bribery, etc.

### Consumer interests:

- ensuring fair business, marketing and advertising practices and the safety and quality of goods and services, etc.

### Science and technology:

- protection of intellectual property rights, transfer of know-how.

### Competition:

- compliance with the rules of fair competition, avoidance of anti-competitive agreements, etc.

### Taxation:

- contribution to the public finances of host countries, compliance with tax law, etc.

The explicit emphasis of the OECD Guidelines on multinational enterprises means that they are still largely unknown among small and midsize enterprises and companies that focus on the domestic market. Nevertheless they can be useful to Macedonian companies wishing to introduce CSR strategies.

### 3. UNDERSTANDING AND SCOPE OF CSR IN MACEDONIA'S CONTEXT

Although activities to promote corporate social responsibility (CSR) have created some degree of awareness of the term and the concept, it can still be considered vague to the wider audience in the country. The results of a recent research<sup>5</sup> showed that those business entities who say that the term is completely unknown to them account for 21.65% of the respondents, while 48.45% said that the term is known to them, i.e., that they have heard of it but cannot define it. 29.9% of the respondents completely knew what the term means.

The word “corporate” often leads to confusion, setting a scope that is too wide as it is sometimes equated with “collective”, or too narrow if a connotation is perceived that it concerns only large companies, or multinational corporations. In order to avoid relating the concept only to incorporated business entities, sometimes alternatives are preferred – such as “*social responsibility of businesses*”, or “*social responsibility of enterprises*”. Some large national companies and subsidiaries of foreign companies use the term *corporate citizenship* to label their involvement in certain areas of CSR. Sometimes these two terms are interchangeably used, even though corporate citizenship is focusing more specifically on external dimensions of social responsibility, while CSR also takes into account the company *internal dimension*, e.g. the treatment of employees.

During the survey for the Baseline study on CSR in Macedonia<sup>6</sup>, an official in a large bank defined CSR as “taking care not only for the profit, but also for the welfare of the community”. However broad this definition might sound, it is frequent for companies to equate the involvement in CSR with donations, sponsorships and charitable contributions. The reason for this may be found in the fact that most of the companies understand CSR as an external component that depends on the requirements set from the environment on which they react and respond in accordance with their capabilities, but not as a component that should be incorporated in the strategic decisions and the mission of the company.

<sup>5</sup> CSR in FYR Macedonia, conducted by the Institute of Sociological, Political and Juridical Research, commissioned by UNDP, 2006.

<sup>6</sup> Baseline study on CSR in Macedonia, UNDP, 2007.

While in developed countries CSR is predominantly related to voluntary action that goes beyond legal requirements in an effort to minimize the negative and the maximize positive effects on the society and the environment, it is quite usual for Macedonian managers to label compliance with legal obligations as CSR. “Regular payment of employees’ salaries, timely payment of tax liabilities to the state, payment of liabilities to the suppliers and timely delivery of the products to the customers are main CSR issues that concern generally all companies in the country”, a manager of a medium chemical company noted during the Baseline study on CSR in Macedonia. This portrays an environment where rule of law is still not to be taken for granted.

Another distinction in the local understanding of the concept is that CSR is often perceived as an obligation only of profitable companies. Within the mentioned study, during an interview with a manager in a renowned bank, the interlocutor maintained that “it is too early to consider introducing the concept of CSR since the general business climate is more burdened with other priorities, and it is hard to make a profit”. Not underestimating the difficulties influencing the behaviour of the business community, this stance overlooks that progressive managers develop CSR as a platform for sustainable competitiveness, utilizing its potential to add value, to generate operational savings, manage risks and attract and retain employees and investors.

With this in mind, we can define corporate social responsibility in the local context in the following manner, as operating on three key levels:

- Firstly, it involves *compliance with legal obligations* (e.g. tax, health and safety, workers rights, consumer rights, environmental regulations) and industry standards.
- Secondly, it includes *minimizing or eliminating the negative effects* of business on society and managing risk (for example, of human rights abuses or pollution).
- Finally, it concerns *increasing the positive effects* of business and creating value through innovation, investment and partnership aligned towards social and environmental good (for example, job creation, social and economic development and conflict resolution).

## B. The rationale for CSR in Macedonia's context

### 1. THE BUSINESS PERSPECTIVE

The ongoing process of economic globalisation and the emergence of new commercial and technological capabilities have shifted the balance between responsibilities of governments and those of business. Companies now face growing pressure to commit explicitly to voluntary measures for the environment and society on top of legal requirements. They are required to accept their responsibilities beyond the factory gate and the frontiers of their home country.

As well as meeting the expectations of their stakeholders, companies that make real achievements in protecting the environment, ensuring the wellbeing of their employees and helping society to develop sustainably are also serving their own immediate vital interests. Companies that adjust to the increased expectations in their operating environment at an early stage promote acceptance of their actions, gain new competitive advantages and reduce their risk exposure. Hence a company's performance in sustainability matters has a material impact on its prospects for long-term commercial success.

As a result, the financial markets are starting to pay more attention to corporate social responsibility, sustainability and socially responsible investment (SRI). The outperformance of a number of SRI indexes is encouraging more and more conventional investors to also consider social and ecological company assessments as a way of further reducing their investment risk.<sup>7</sup>

The business case for CSR recognizes the opportunities for good social and environmental performance to be converted into good economic performance. This business case operates on three key levels:

- *Pain alleviation/Reputation protection*; Pressure from NGOs, consumers, media, the state and other public bodies leading to responsive action to avoid potential financial loss and protect brand image.

- *Cost benefit*; Tangible financial gains, for example from improvements in productivity or reducing energy and material inefficiency, which can be offset against the costs (investments) involved.
- *Strategic level*; CSR as a core part of a company's development strategy, such as a fundamental shift in products, CSR as integral to brand identity or as a route for learning and innovation.

CSR positively contributes to competitiveness as it leads to a competitive advantage, particularly by improving the company's image, increasing its customers' loyalty and fostering the employees' motivation and workplace satisfaction. As to this regard it is important that CSR is not seen to be something "fashionable", but to develop and apply a CSR strategy that is embedded in the overall business strategy in order to guarantee its sustainability.

Nevertheless, it should be noted that the pressures that are being mounted on the Macedonian enterprises by the media, non-governmental organizations, consumers, the labour unions, investors, business partners and the state, as a reaction to socially irresponsible behaviour are incomparably weaker than those in the developed countries. On the other hand, the companies with socially responsible activities are not being sufficiently acknowledged on the domestic market (i.e. by the domestic consumers, business partners and investors), by the media and the government.

Having in mind the process of EU integration, on one hand there is an increasing opportunity for our enterprises to access the common market of the Union, but on the other there they face expectations of consumers, regulators and investors regarding the implementation of practices of CSR. Aside from this, for the Macedonian companies that aspire to conclude outsourcing agreements with large foreign companies or to be their suppliers a need arises to introduce CSR practices, because often that will be set as an explicit requirement for business cooperation in accordance with the policies of the leading global companies.

<sup>7</sup> Corporate Social Responsibility: An Introduction From The Environmental Perspective, Sabine Braun, Thomas Loew, Federal Ministry for the Environment, Nature Conservation and Nuclear Safety, 2006.

## 2. THE GOVERNMENT PERSPECTIVE

### 2.1. EU accession

The European Commission sees Corporate Social Responsibility (CSR) as part of the business contribution to sustainable development and to the European Growth and Jobs Strategy, as CSR has the potential to contribute to various common goals, such as social cohesion, economic competitiveness and a more rational use of natural resources. In the EU CSR has been embedded in the employment and social affair policy, enterprise policy, environmental policy, consumer policy, public procurement policy and external relations policy.

For Macedonia, the accession to the EU will require embracing EU norms and practices, including recognizing and promoting CSR and its contribution to social cohesion and sustainable competitiveness and development. This would inevitably require reviewing of governmental policies in areas affected by the CSR concept, developing a comprehensive CSR agenda, implementing supportive actions and monitoring progress in achieving established CSR objectives.

### 2.2. Attracting foreign direct investment

Promoting CSR is also relevant for attracting foreign investment as there is a rapid increase of investment funds that supplement financial objectives with social, environmental or ethical considerations in the selection, retention and realization of investment. This “socially responsible investment” designates approving loans to or investment in securities of enterprises that fulfil some of the criteria for social responsibility. For instance in 2005, total socially responsible investment assets in professionally managed portfolios that embrace socially responsible investment practices rose to \$2.71 billion<sup>8</sup> in the US. The European market for socially responsible investing grew from €336 milliards in 2003 to over €1 billion at the end of 2005<sup>9</sup>. In order to utilize part of these funds the Macedonian enterprises will have to change the manner in which they conduct their day-to-day business activities in order to incorporate the principles of socially responsible behaviour.

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<sup>8</sup> Social Investment Forum, 2007 Trends Report.

<sup>9</sup> Eurosif, the European social investment forum, 2006.

# ANALYSIS OF THE SITUATION

## C. SWOT-analysis of developing CSR in Macedonia

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• History of presence of social considerations in doing business;</li> <li>• History of support of businesses to local communities;</li> <li>• Increased awareness of potential reputational benefits from CSR for businesses;</li> <li>• Established multi-stakeholder body (national Coordinating Body on CSR) as a CSR policy-making body, forum, and implementing capacity;</li> <li>• Presence of motivation and enthusiasm among key stakeholders for embracing CSR and deepening their understanding;</li> <li>• Strong uptake of corporate philanthropy (developing ties between the business sector and the civic society).</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of understanding of the concept of CSR, its scope, and the business case for CSR;</li> <li>• Volatile business climate;</li> <li>• Lack of socially responsible investment;</li> <li>• Low level of awareness and weak enforcement of consumer rights and lack of consumer activism;</li> <li>• Weaknesses in corporate governance;</li> <li>• Lack of dominant model of corporate governance/funding;</li> <li>• Widespread corruption that is undermining the values and principles of a market economy (companies are not stimulated to develop CSR practices when corrupt practices, instead of the values and the quality of the business strategy, become a criterion that determines business success);</li> <li>• Insufficient capacity of certain stakeholders and their organizations for representing and advocating their interests.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• The value and potential of strategic CSR approach for businesses;</li> <li>• The increased importance placed on CSR in the EU and in the global context (economic and political);</li> <li>• The funding opportunities for CSR provided for by the EU;</li> <li>• Opportunities for SMEs to get involved and accepted in the global supply chains;</li> <li>• Opportunities for SMEs from enhancing their acceptance of CSR;</li> <li>• Potential of CSR for building competitive advantages for the nation and the businesses (providing that the country is quick and consistent in creating a conducive CSR environment and a set of advanced CSR practices that could stand out on an international level);</li> <li>• Positive attitude of the citizens to the active involvement of the enterprises in addressing the challenges that the community is facing.</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of consistent regulatory framework;</li> <li>• Deficiency in enforcement mechanisms and weak compliance with existing regulations covering CSR issues;</li> <li>• Lagging behind the other EU candidate-countries and the EU member states;</li> <li>• Risk of being excluded from certain segments of the EU market;</li> <li>• Setting a low threshold on what can be considered as a good CSR practice (unsubstantiated approach towards awarding CSR good practices);</li> <li>• Risk of sidelining the role of government in the early stages of CSR promotion;</li> <li>• Risk of insufficient government support and commitment.</li> </ul>

# VISION, OBJECTIVES AND PRIORITY MEASURES

## D. Vision of developing CSR in Macedonia

**Overall vision:** Promoting sustainable business growth that encourages social inclusion and prevents environmental degradation.

**Government role within the overall vision:** Creating an enabling environment for CSR that promotes growth, social inclusion and sustainability.

The efforts of the Government of Macedonia for acceding to the EU and attracting foreign investment enable close alignment between already existing activities in those areas and the possibility to create unique partnerships with businesses for scaling-up CSR practices.

The opportunity to attract international attention on CSR that arises from an ambitious approach to CSR in an emerging economy is based on creating competitive advantages. Emerging economies are perceived as focus areas for making CSR operational; be it as risk management or as proactive contribution to sustainable development. Multinational corporations adopt risk focus in their supply chain management programs, where an environment with advanced CSR practices is considered as a mitigating factor when doing business in emerging economies. However, due to increasing international focus on CSR, especially in developing countries, only those countries that emerge as leaders will reap most benefits.<sup>10</sup>

Finally, the government should not only see an opportunity in promoting CSR with business, but realize that it is also of paramount importance for government institutions to become socially responsible. Public reputation is crucial

not only to ensure trust in public institutions but to enable them to attract and retain qualified personal.<sup>11</sup>

Thus, the Government should embrace an ambitious vision for corporate social responsibility that would entail:

- use proactively the contemporary international focus on CSR to attract and promote investment in Macedonia;
- encourage business, civic society and public sector organisations to take account of their economic, social and environmental impacts;
- encourage business, civic society and public sector organisations to take complementary actions to address key challenges based on their core competencies – locally, regionally and nationally;
- allocate resources to ensure that capacity is built;
- consider legislative changes that would create an enabling environment.

## E. Objectives

In order to implement the vision the following mid-term objectives have been identified:

<b>Objective 1:</b>	Raising awareness on CSR
<b>Objective 2:</b>	Developing the capacities and competences to help mainstream CSR
<b>Objective 3:</b>	Ensuring an enabling environment for CSR

<sup>10</sup> Final report of the international consultant on Corporate Social Responsibility commissioned by the EC/UNDP project to assist in the preparation of the national CSR agenda, Mr. Sune Skadegaard Thorsen, 2008.

<sup>11</sup> Ibid.

## F. Priorities, measures and activities

### Objective 1: Raising awareness on CSR

<i>Measures and activities</i>	<i>Responsible sector/organization</i>	<i>Period for implementation</i>
<b>1.1. Public campaigns on CSR</b>		
1.1.1. Conducting public campaigns – targeting citizens, consumers and companies – on the meaning of CSR, its scope, the benefits from CSR and from implementing CSR principles	Civil society organizations; Ministry of Economy; Ministry of Labour and Social Policy; Ministry of Environment and Physical Planning	2008–2009
1.1.2. Promoting publication of articles on CSR in the media	NGOs; media; business associations; labour unions; employers' organizations	2008–2009
1.1.3. Increasing awareness on the possibilities for strengthening the financial independence of non-governmental organizations and the media from individual companies, so as to enhance their supervisory role in relation to the business sector	NGOs; media; business associations; labour unions; employers' organizations	2009–2010
1.1.4. Disseminating experience and leading foreign practices in the field of CSR	NGOs; media; business associations; labour unions; employers' organizations; international development organizations	2008–2012
<b>1.2. Research on CSR</b>		
1.2.1. Support of independent research projects on topics in the field of CSR	NGOs; business associations; labour unions; employers' organizations	2009–2012
1.2.2. Support and coordination of CSR research (designed to identify support measures for CSR needed by the business sector; obtain information on corporate initiatives and develop local case studies and best practice examples; examine the effectiveness of specific CSR tools and practices; establish CSR indicators and monitor progress)	Ministry of Economy; Ministry of Education and Science; Ministry of Labour and Social Policy; Ministry of Environment and Physical Planning	2009–2012
1.2.3. Conducting research on CSR	Academia; NGOs	2008–2012
<b>1.3. Stimulating cooperation and dialogue</b>		
1.3.1. Stimulating cooperation between governmental institutions, non-governmental organizations, academia, labour unions, employers' organizations, business entities and associations in promoting CSR	NGOs; academia; business associations; labour unions; employers' organizations; businesses; Ministry of Economy; Unit for Cooperation with Non-governmental Organizations within the General Secretariat of the Government; Ministry of Labour and Social Policy; Ministry of Education and Science; municipal authorities; Ministry of Local Self-government	2008–2012
<b>1.4. Creating databases in the field of CSR</b>		
1.4.1. Creating a registry of businesses certified for standards related to CSR, or which were entitled to use environmental and social labels	Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy	2009
1.4.2. Establishing a resource centre for CSR that would provide advice or will direct businesses and civil society organizations to resources that could provide further support and information	International development organizations; outsourcing	2009–2010
<b>1.5. Providing CSR training and education</b>		
1.5.1. Comprehensive inclusion of CSR in the educational process, and especially in the curricula of the higher educational institutions in the field of business administration, public administration and law studies, including post-graduate management studies	Educational institutions	2009–2012

<i>Measures and activities</i>	<i>Responsible sector/organization</i>	<i>Period for implementation</i>
1.5.2. Support for inclusion of CSR in the educational process	Ministry of Education and Science (including the Bureau for Development of Education); Interuniversity Conference of the Republic of Macedonia	2009–2012
1.5.3. Organizing training and publications on CSR for representatives of the business associations and the media	NGOs; business associations; businesses; labour unions; employers' organizations; academia; international development organizations	2008–2010
1.5.4. Initiating and support for training and publications on CSR for managers	NGOs; business associations; labour unions; employers' organizations; academia; international development organizations; Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy	2008–2010

## Objective 2: Developing the capacities and competences to help mainstream CSR

<i>Measures and activities</i>	<i>Responsible sector/organization</i>	<i>Period for implementation</i>
<b>2.1. Training and exchange of experience</b>		
2.1.1. Developing the capabilities of non-governmental organizations to establish dialogue with the private sector aimed at its inclusion in the realization of their mission	NGOs; business associations; academia; international development organizations; businesses	2009–2012
2.1.2. Supporting businesses in establishing structured dialogue with their stakeholders	NGOs; business associations; labour unions; employers' organizations; academia; international development organizations; businesses	2009–2010
2.1.3. Strengthening the business-to-business exchange of experience and good practices within the scope of CSR, so that the businesses which adopted certain CSR principles could stimulate other businesses to understand the benefits and the manners of implementation of the concept	Businesses; business associations; labour unions; employers' organizations; academia	2008–2009
2.1.4. CSR training for business support organizations	Business associations; labour unions; employers' organizations; academia; Ministry of Economy	2008–2010
2.1.5. Enhancing the capacities of consulting and auditing companies to offer services in the field of CSR	Ministry of Economy	2009–2010
<b>2.2. Developing CSR performance management</b>		
2.2.1. Introducing standards and management systems relevant for CSR	Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy; business associations; businesses	2008–2010
2.2.2. Introducing standards for stakeholder engagement	Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy; business associations; businesses	2008–2010
<b>2.3. Improving corporate governance</b>		
2.3.1. Promoting the practice of assigning an individual in the board of directors or the governing board who would deal with issues in the field of CSR	Businesses; business associations; labour unions; employers' organizations; Ministry of Economy	2009–2012
2.3.2. Establishing general or sector-specific voluntary standards and codes of conduct in the field of CSR	Professional and business associations; labour unions; employers' organizations; businesses	2008–2011
2.3.3. Introducing formal codes of ethical business conduct	Businesses; business associations; labour unions; employers' organizations; Ministry of Economy	2009–2011

### Objective 3: Ensuring an enabling environment for CSR

<i>Measures and activities</i>	<i>Responsible sector/organization</i>	<i>Period for implementation</i>
<b>3.1. Creating CSR incentives</b>		
3.1.1. Tax incentives	Ministry of Finance; Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy	2009–2010
3.1.2. Introducing environmental and social labels for products and services	Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy; Ministry of Finance	2009–2010
3.1.3. Promoting national systems for social and environmental labelling	Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy; Ministry of Finance; NGOs; business associations; labour unions; employers' organizations	2009–2010
3.1.4. Partial cost reimbursement for businesses that introduce and certify standards and management systems related to CSR (including organic production)	Ministry of Finance; Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy; Ministry of Agriculture, Forestry and Water Economy	2008–2010
3.1.5. Preferential treatment in public procurement, simplified administrative procedures and fiscal incentives for companies that have certified standards related to CSR, who were granted the right to use environmental and social labels, or who have introduced codes of conduct based on internationally recognized principles	Ministry of Finance (including the Public Procurement Bureau); Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy; Ministry of Agriculture, Forestry and Water Economy	2010–2011
3.1.6. Inclusion of CSR in the criteria for pre-qualification and selection at public tenders; inclusion of social and environmental obligations in public procurement contracts	Ministry of Finance (including the Public Procurement Bureau); Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy	2010–2011
3.1.7. Establishment and promotion of a system of annual awards for CSR and awarding businesses and other organizations that have contributed to the promotion of CSR	Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy; municipal authorities; NGOs; labour unions; business associations; employers' organizations	2008–2010
3.1.8. Encouraging the introduction of principles of social responsibility in the supply chain and providing support for their implementation	Businesses; NGOs; labour unions; business associations; employers' organizations	2009–2012
3.1.9. Offering initial project financing for projects in the CSR domain	Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy; Ministry of Finance	2009–2012
3.1.10. Encouraging the inclusion of CSR in visions and missions of businesses	Businesses; NGOs; labour unions; business associations; employers' organizations	2008–2012
3.1.11. Promoting the introduction of employee incentives for accomplishing the goals of businesses related to corporate social responsibility	Businesses; NGOs; labour unions; business associations; employers' organizations	2009–2010
<b>3.2. Creating legal obligations for CSR</b>		
3.2.1. Creating obligations for the state bodies, public sector and state-owned companies to implement environmental management systems and to submit annual reports on their environmental and social impacts	Ministry of Environment and Physical Planning; municipal authorities	2009–2010

<i>Measures and activities</i>	<i>Responsible sector/organization</i>	<i>Period for implementation</i>
3.2.2. Stipulating an obligation for investment and pension fund managers to provide an annual report on inclusion of CSR considerations in investment decisions related to the funds, and how those considerations were taken in account	Ministry of Finance; Ministry of Labour and Social Policy; Securities and Exchange Commission; Agency for Supervision of Fully Funded Pension Insurance	2008–2009
3.2.3. Including CSR in the sustainable development strategy	Ministry of Environment and Physical Planning	2008–2009
3.2.4. Introducing external verification of validity and usefulness of company level corporate social responsibility reports	Ministry of Economy; Ministry of Finance; NGOs; labour unions	2010–2012
<b>3.3. CSR disclosure</b>		
3.3.1. Introducing and promoting periodical communications, reports and indices on the environmental and social impacts of businesses	Businesses; Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy; Securities and Exchange Commission; Macedonian Stock Exchange	2008–2010
3.3.2. Encouraging affiliates and subsidiaries of multinational companies to publish reports on their environmental and social impacts not only on international level, but also on local level	Businesses; business associations; Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy	2008–2009
3.3.3. Promoting the use of internationally accepted guidelines in the preparation of company level CSR reports	Businesses; Ministry of Economy; Ministry of Environment and Physical Planning; Ministry of Labour and Social Policy; Securities and Exchange Commission; Macedonian Stock Exchange	2008–2010

## 1. FURTHER ELABORATION AND EXPLANATION ON PRIORITY MEASURES AND ACTIVITIES FOR THE GOVERNMENT

### 1.1. Awareness raising<sup>12</sup>

Sectoral ministries and governmental agencies could consider supporting the following top-down and bottom-up activities as part of a broader awareness raising endeavour:

- Leading by example – promote CSR through seminars and sharing best practices among decision makers in governmental institutions, local authorities, state-owned and public sector companies, as well as other enterprises where the government has a significant participation in the ownership structure; CSR public procurement; EMAS auditing of public institutions etc.;
- Mainstreaming CSR among Macedonian enterprises – support existing programs of such organizations as the Economic Chamber of Macedonia, the Macedonian Chambers of Commerce, the Macedonian Network of the UN Global Compact, the Consumer Organization of Macedonia, the American Chamber of Commerce in Macedonia, the Center for Institutional Development, and so forth;
- CSR implementation guide for companies – prepare a guide and promote it through employers' organizations and chambers of commerce;
- CSR and consumers – develop a nationwide campaign focused on explaining the benefits from CSR activities to consumers, and encouraging sustainable consumption patterns.

<sup>12</sup> Refer to the measures and activities in the table given under Objective 1.

## 1.2. Introduce CSR considerations in public procurement<sup>13</sup>

By including environmental and social clauses in governments' bidding procedures, suppliers are stimulated to develop their CSR activities, while governments serve as an example to other stakeholders. CSR oriented public procurement promotes CSR engaged companies by improving market conditions for their activities. It awards certain behaviour and underlines the seriousness of government regarding CSR.

In the EU, there are examples of linkages between public procurement and CSR in a number of Member States:

- The 2005 European Commission survey on the state of play on **green public procurement**<sup>14</sup> in the EU found that seven Member States (Austria, Denmark, Finland, Germany, the Netherlands, Sweden and the UK) were practicing a significant amount of green public procurement. In these countries 40-70 percent of all tenders published on Tenders Electronic Daily during one year (2004–2005) included environmental criteria.
- According to the Polish Law of Public Procurement a contracting authority is allowed to use environmental criteria to select a vendor. It can use either price or price in combination with "other criteria" – including a request that the object of the order should be in line with the most advanced environmental technologies available on the market.<sup>15</sup>
- The Belgian government approved the introduction of a social clause for certain federal public procurement contracts favouring the inclusion of disadvantaged groups (e.g., a percentage of the total share of the contract is to be used to hire long-term unemployed people).<sup>16</sup>

<sup>13</sup> In the tables of measures and activities refer to the numbers 3.1.5. and 3.1.6.

<sup>14</sup> The European Commission, DG Environment provides detailed guidelines on how to introduce and promote green public procurement in a Handbook of Environmental Procurement, and Guidelines on Greening Public Procurement by using the Ecolabel criteria. Also, reference can be made to the EU Directives 2004/18/WE and 2004/17/WE.

<sup>15</sup> CSR Implementation Guide: Non-legislative Options for the Polish Government, World Bank, 2006.

<sup>16</sup> "Corporate Social Responsibility: National public policies in the European Union", European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, 2004.

- The French law on public procurement authorizes the inclusion of social and environmental considerations among the clauses of public procurement contracts (Art. 14).
- In few regions in Italy social criteria, based on the SA8000 standard, have been introduced in public procurement.<sup>17</sup>

While EU governments already recognized public green procurement as an instrument to support sustainable development, **social public procurement** practices, related to working conditions at suppliers and their supply chains, are less developed across Europe. The UK government defines social public procurement as: *a) considering the social impacts that arise from the procurement activity itself, b) identifying social areas of concern that are associated with the product or service being procured, c) managing those impacts through careful specification and the use of appropriate conditions of contract, and d) liaising with contracted suppliers to improve their social performance, including in areas such as health and safety, promoting fair wages and working conditions, and equal opportunities.*<sup>18</sup>

In the United States, the federal government has used public procurement as one of a number of measures to ensure compliance by government contractors with extensive legal prohibitions of employment discrimination.<sup>19</sup>

## 1.3. Promote CSR related management systems<sup>20</sup>

There is no management system covering all aspects of CSR. However, standardized management systems are available for certain fields such as environment, and health and safety. The systems usually comprehensively cover the planning, implementation, checking, accounting, auditing, reporting, and improvement facets of typical business operations. The following represent some of the more popular management systems related to CSR: ISO 9000, ISO 14000, SA8000, AA 1000, OHSAS 18000.

<sup>17</sup> CSR Implementation Guide: Non-legislative Options for the Polish Government, World Bank, 2006.

<sup>18</sup> Ibid.

<sup>19</sup> Ibid.

<sup>20</sup> In the tables of measures and activities refer to the numbers 2.2.1., 2.2.2., 3.1.4., 3.1.5. and 3.2.1.

Usually firms are requested by business partners within a supply chain to certify their production or services in order to meet those management frameworks and standards. By ordering certified goods and services a business partner provides direct financial incentive. However, quite often costs related to certification are too high for SMEs. Therefore, the Macedonian government is offering to partly offset the financial costs of the certification process.

Still, there is a need to improve the credibility of this scheme. In the past the government has failed to honour its obligations to a considerable number of companies that had been included in this program. Furthermore, for a number of companies, especially SMEs, it is difficult to cover the certification expenses in advance and wait for reimbursement.<sup>21</sup>

In addition, it is recommended to consider linking voluntary social and environmental management frameworks and standards with the rules for public procurement.

#### 1.4. Promote social and eco-labels<sup>22</sup>

Social and eco-labels are broadly spread as an instrument of consumer information, and possibly a rewarding mechanism to companies for their social and/or environmental commitments by consumers and/or governments. Labels provide a direct way to trigger change in the behaviour of consumers. They also create new and premium market opportunities for producers and retailers.

Labels are usually issued by country standardization organizations (government agencies) or non-governmental organizations, but also by business associations or individual companies.

However, examples from countries where consumer knowledge about these signs is very low show that labelling initiatives are limited in scope and potential impact because they are restricted to particular niches within the retail market and often apply only to imported products.<sup>23</sup>

<sup>21</sup> Baseline study on CSR in Macedonia, UNDP, 2007.

<sup>22</sup> In the tables of measures and activities refer to the numbers 3.1.2., 3.1.3. and 3.1.5.

<sup>23</sup> ABC of the main instruments of Corporate Social Responsibility, European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, 2004.

There is a need for the Macedonian government to establish national eco and social labels, set labelling criteria for different groups of products, and work to increase the market share of labelled goods through enhancing their visibility and its transparency in the issuing process, and by raising consumers' awareness of their existence and importance.

#### 1.5. Promote codes of conduct<sup>24</sup>

In Macedonia, there are several national and international codes of conduct in place – both general and industry specific. To mention few of them: the Corporate Governance Code of the Macedonian Stock Exchange (that partly refers to certain stakeholder engagement aspects of CSR), the UN Global Compact Principles, The Business Ethics Code Model promoted by the USAID Corporate Governance and Company Law project, the Code of conduct of the Macedonian Association of Marketing Agencies. In addition, several Macedonian companies developed their own codes of conduct.

Ministries and other governmental agencies can contribute to the initiation, development and implementation of voluntary codes in many ways. Government involvement in the process of developing codes of conduct is encouraged by the EU Directive on Unfair Commercial Practices of May 2005.

The Government should also initiate dialogue with the Macedonian Stock Exchange in order to explicitly include CSR in its Corporate Governance Code, where diligent management of CSR would signify good corporate governance.

In some circumstances, government departments or agencies can explicitly endorse a particular code (e.g., UN Global Compact) or association that satisfies the provisions of a code. However, it is important that clear legal authority for such endorsements exists. Although voluntary codes are not required by legislation, the existence of such codes may help to achieve regulatory objectives and could have regulatory implications. For example, in a regulatory enforcement action a company could point to its adherence to a voluntary code to help establish "due diligence." In

<sup>24</sup> In the tables of measures and activities refer to the numbers 2.3.2. and 2.3.3.

addition, the EU Directive on Unfair Commercial Practices considers non-compliance by a company with commitments contained in codes of conduct as misleading action that could be penalized in court.

### 1.6. Promote CSR reporting<sup>25</sup>

The recent global increase in corporate social responsibility reporting — covering the economic, environmental and/or social performance of an organization, and sometimes overall sustainability — is linked to the demand for greater accountability and transparency of companies. Key stakeholders not only expect businesses to take account of their social and environmental impact, but also want to be informed on how they are performing in these areas.<sup>26</sup>

Sustainability reporting throughout the world is still largely a voluntary exercise. Yet, new requirements calling for reporting on aspects of sustainable development performance are being introduced in corporate accounting and disclosure laws in certain countries.

Public initiatives are increasingly supporting the development of social and environmental reporting:

- France became the first country to mandate triple bottom line reporting for publicly listed companies with the adoption of the law on new economic regulations (Law No 2001-240, Art. 116) requiring all listed companies to take into account the 'social and environmental consequences' of their activity in their annual report, but does not provide guidelines for reporting.<sup>27</sup>
- In several jurisdictions (e.g., Denmark, the Netherlands, Norway and Sweden) legislation is now in place to require environmental statements from certain types of industry — either within their financial accounts or in a stand-alone 'green account'.<sup>28</sup>
- In Sweden all state-owned enterprises must report on their social, environmental and economic performance

<sup>25</sup> In the tables of measures and activities refer to the numbers 3.2.1., 3.2.2., 3.3.1., 3.3.2. and 3.3.3.

<sup>26</sup> ABC of the main instruments of Corporate Social Responsibility, European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, 2004.

<sup>27</sup> Ibid.

<sup>28</sup> CSR Implementation Guide: Non-legislative Options for the Polish Government, World Bank, 2006.

using the Global Reporting Initiative framework for CSR reporting.<sup>29</sup>

- Other countries (e.g., the UK) have developed guidelines for environmental reporting.<sup>30</sup>

The Macedonian Government should mandate companies of certain size and of certain industries to report on their environmental and social impact. The Government and the Securities and Exchange Commission should start a dialogue, including with the Macedonian Stock Exchange, aimed at stimulating CSR reporting through linking reporting to socially responsible investment and/or public procurement rules and practices. The government should create guidelines for CSR reporting, for example by developing a guideline on how to apply the Sustainability Reporting Framework of the Global Reporting Initiative, and select the most important indicators for the Macedonian business community. This would create a comparable mechanism and would eliminate arbitrary selection of indicators by companies on a case by case basis.

### 1.7. Support socially responsible investment<sup>31</sup>

In recent years, socially responsible investment (SRI) has experienced a strong surge in popularity among mainstream investors. SRI combines investors' financial objectives with their concerns about social, environmental and ethical issues. As the pressure comes directly from the companies' owners or shareholders, SRI represents a powerful way to prompt change in companies' behaviour, and promote social and environmental progress.

Between 1999 and 2005, the UK, Sweden, Belgium, Germany, and Italy enacted legislation requiring pension funds to declare how, if at all, social, environmental and governance factors influence their investment decisions.<sup>32</sup>

<sup>29</sup> Guidelines for external reporting by state-owned companies, Ministry of Enterprise, Energy and Communications of Sweden, 2008.

<sup>30</sup> ABC of the main instruments of Corporate Social Responsibility, European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities, 2004.

<sup>31</sup> In the tables of measures and activities refer to the numbers 3.2.2, 3.3.1. and 3.3.3.

<sup>32</sup> CSR Implementation Guide: Non-legislative Options for the Polish Government, World Bank, 2006.

Additionally, the existence of a large pool of capital managed according to Environment-Social-Governance (ESG) criteria might encourage companies to change their policies in order to make their securities eligible for purchase by this pool of capital. Today, nearly one out of every ten dollars under professional management in the US is involved in socially reasonable investing.<sup>33</sup> A number of ethical investment and sustainability indices have been introduced, such as the Dow Jones Sustainability Index, the FTSE4 Good, the Domini 400 Social Index, the Ethibel Sustainability Index, and Bovespa SR Index. These indices are designed to reflect and benchmark the performance of socially responsible companies. Indices can play a useful role in understanding the relationship between SRI funds and financial performance and thus facilitate the up-take of SRI.

The Macedonian government should provide supportive activities aimed at SRI, namely:

- preparing its own or endorsing existing guidelines on CSR reporting, that would include requirements of the investment community;
- ensuring that institutional investors are required to disclose their socially responsible investment practices;
- positioning CSR firmly in all investment promotion initiatives supported by reformulating promotional material on investment to reflect basic CSR principles.<sup>34</sup>

## 2. COMPREHENSIVE GOVERNMENT APPROACH TOWARDS PROMOTING CSR

A Regional Baseline study on CSR<sup>35</sup> provided comparison on the level of CSR development among five new EU Member States and three candidate countries. Macedonia ranked last in several aspects, particularly in terms of "Legal and Political Environment". Lessons from other countries and from present EU member states suggest that in an environment where the market-based incentives for CSR are still weak the government must play an important supporting and enabling role in promoting CSR. The recommendations from the study included suggestions for the government to identify a named department to lead on CSR issues and to consult widely with interested parties in order to develop CSR strategies and sustainable development strategies building around responsible business practices and private sector participation. Therefore, the government in general should:

- **Designate a governmental body** responsible for coordinating the efforts of various Governmental departments which will communicate and cooperate with the national Coordinating Body on CSR;
- **Establish annual government report on CSR** (outlining the government work plan on CSR, including initiatives to develop the business case, engage a wider range of businesses, especially SMEs, encourage good practice, and coordinate CSR policies across the government);
- **Support and coordinate research on CSR**, designed to: identify support measures for CSR needed by the business sector; obtain information on corporate initiatives and develop local case studies and best practice examples; examine the effectiveness of specific tools and practices in improving the social, economic and environmental impact of businesses; establish CSR indicators and regularly monitor progress.<sup>36</sup>

The text below examines specific measures and activities that certain Ministries should pursue if there is willingness to commit to a comprehensive approach.

<sup>33</sup> Social Investment Forum Industry Research Program 2005, Report on Socially Responsible Investing Trends in the United States, January 2006.

<sup>34</sup> Final report of the international consultant on Corporate Social Responsibility commissioned by the EC/UNDP project to assist in the preparation of the national CSR agenda, Mr. Sune Skadegaard Thorsen, 2008.

<sup>35</sup> "Baseline Study on CSR Practices in the new member states and candidate countries", Synthesis Report of National Baseline Studies in eight countries: Bulgaria, Croatia, Hungary, Lithuania, Macedonia, Poland, Slovak Republic and Turkey; UNDP-EC; June 2007.

<sup>36</sup> In the tables of measures and activities refer to number 1.2.2.

## 2.1. Ministry of Economy

### 1. *Issues related to corporate governance:*

- Promote codes of ethical conduct and good corporate governance among companies, and provide support in their implementation (number 2.3.3. in the tables of measures and activities);
- Provide assistance to the companies that embrace CSR principles in drafting a strategy and policies and incorporating CSR in the overall business strategy (number 3.1.10. in the tables of measures and activities);
- Amend the Company Law to mandate that annual reports of listed and large companies contain information on how the company takes into account the social and environmental consequences of its activities (for example, relationships with employees, customers and suppliers, and the company's impact on the wider community and the environment) (numbers 3.2.1, 3.3.1. and 3.3.2. in the tables of measures and activities);
- Amend the Company Law to require corporate directors to take into account the social and environmental impact of the companies.

### 2. *Consumer protection and responsible consumption:*

- Initiate the development of codes for further regulating commercial advertisements and sales promotion practices in the consumer interest (number 2.3.3. in the tables of measures and activities);
- Promote awareness among consumers and voluntary organizations on socially responsible consumption (for example, through training materials and the organization of round tables with stakeholders) (number 1.1.1. in the tables of measures and activities);
- Forbid misleading advertising concerning the effects of companies and products on the environment and society and monitoring the advertising of environmental and social labels.

### 3. *Responsible mineral extraction, energy efficiency and renewable mineral resources:*

- Provide incentives for renewable energy and energy efficiency (for example, by providing financial support to SMEs to develop environmentally friendly

policies through consultancy services on energy saving, training, the introduction of environmental management schemes, and investment in renewable energy).

### 4. *Technical regulations:*

- Organize and support training on the introduction of CSR standards and best practices (numbers 1.5.4., 2.1.4. and 2.1.5. in the tables of measures and activities);
- Partly offset the costs for companies that are in the process of implementing and certifying CSR related standards and management systems (number 3.1.4. in the tables of measures and activities).

### 5. *Monitoring CSR:*

- Maintaining an up to date register of companies certified for CSR related standards, and those awarded with social and environmental labels (number 1.4.1. in the tables of measures and activities);
- Establish national CSR indicators and regular monitoring of the situation.

### 6. *Promoting incentives for CSR:*

- Promote the introduction of preferential treatment in public procurement, financial support for training and certification, simplified administrative procedures and fiscal incentives to companies that have obtained certifications for CSR related standards, or social and environmental labels (number 3.1.5. in the tables of measures and activities);
- Establishing and granting annual social responsibility reporting award to the best social responsibility reports (numbers 3.1.7., 3.3.1. and 3.3.2. in the tables of measures and activities);
- Granting public funding to companies to offset costs for implementation of codes of conduct in line with the UN Global Compact, annual CSR or sustainability reporting, and certification against SA8000 and other CSR related labour standards (numbers 2.3.3., 3.1.4. and 3.3.1. in the tables of measures and activities).

### 7. *Disseminating information on CSR:*

- Organize and support targeted campaigns on the meaning of CSR, its scope, the competitive advantage that CSR creates and how key principles can

be translated into practice (number 1.1.1. in the tables of measures and activities);

- Provide support in building the capacity of local consultancies to offer CSR related services (number 2.1.5. in the tables of measures and activities).

## 2.2. Ministry of Environment and Physical Planning

- Include a **strategy goal on CSR in the strategy on sustainable development**, setting tasks and targets relating to the impact of business in areas such as competitive sustainability (number 3.2.3. in the tables of measures and activities);
- Accelerate the process of establishing national criteria for **environmental labelling**; establish voluntary national environmental label(s); promote voluntary environmental label(s) (for example, by setting up a website presenting organisations and products in this field, or by advocating preferential treatment in public procurement, simplified administrative procedures and fiscal incentives related to environmental labels) (numbers 3.1.2., 3.1.3. and 3.1.5. in the tables of measures and activities);
- **Support the introduction of environmental management systems** by providing benefits/incentives to organizations and partly offset the costs for organizations that are in the process of implementing and certifying environmental management systems (number 3.1.4. in the tables of measures and activities);
- Oblige government agencies and state-owned enterprises to **implement environmental management systems** and report annually on their progress (number 3.2.1. in the tables of measures and activities);
- Maintaining an **up to date register of companies certified for environmental management systems**, and those awarded with environmental labels (number 1.4.1. in the tables of measures and activities).

## 2.3. Ministry of Labour and Social Policy

- Campaign with civil society organizations to raise awareness among businesses that social welfare is not solely the concern of the public sector (numbers 1.1.1. and 1.3.1. in the tables of measures and activities);
- Cooperate with business associations and trade unions

to **promote and uphold the freedom of association** and the right to **social security** (numbers 1.1.1. and 1.3.1. in the tables of measures and activities);

- Cooperate with the Ministry of Economy, the chambers of commerce, labor unions and other civil society organizations in **establishing and promoting social labels** (for example, set up a website presenting companies, organisations and products in this field; establish a social index to communicate how socially responsible a company is to the company's employees and external stakeholders, how it incorporates family-friendly business practices, and award high-scoring companies with a certificate or the right to use a special label on its products) (numbers 3.1.2., 3.1.3. and 1.3.1. in the tables of measures and activities);
- Prepare a proposal to the Ministry of Finance for establishing **preferential treatment in public procurement, simplified administrative procedures and fiscal incentives** for companies that introduce labour standards and health and safety management systems, or are awarded with a social label (numbers 3.1.5. and 3.1.6. in the tables of measures and activities);
- Encourage companies to **give employees the equivalent of a day paid time to volunteer** for work in the community; set up an initiative to promote such a scheme (number 1.1.1. in the tables of measures and activities);
- Set up a coalition of companies and individuals from all groups in society that would get involved in the **fight against unemployment** through forums for advice, information and contacts; establish a network of company volunteers with the task of finding training places and internships for young people (numbers 1.1.1. and 1.3.1 in the tables of measures and activities);
- Launch an initiative that would encourage and assist companies to **remove technical, physical/structural, attitudinal and communication barriers in the workplace** affecting people with disabilities, women and ethnic minorities; promote tax benefits for such initiatives to help offset costs (numbers 1.1.1. and 1.3.1 in the tables of measures and activities);
- Establish a **network of business executives** who propose and promote activities for social inclusion (for example, to integrate ethnic minorities and the long-term unemployed) (numbers 1.1.1. and 1.3.1 in the tables of measures and activities);

- Launch an initiative to promote projects and partnerships between social partners, public authorities and companies aimed at promoting **flexible working hours**, preventing **work-related stress** and encouraging **lifelong learning** (numbers 1.1.1. and 1.3.1 in the tables of measures and activities);
- Organize competitions and grant annual **awards to enterprises** that have promoted various labour-related aspects of CSR – health and safety at work, improvement of working conditions, flexibility of working hours and places, work–life balance, children-supportive policies, social integration and equal opportunities (number 3.1.7. in the tables of measures and activities);
- Amend the Law on Compulsory Fully Funded Pension Insurance and the Law on Voluntary Fully Funded Pension Insurance to **include a requirement for the pension funds managers to disclose whether they take into account ethical, environmental and social aspects in their investment decisions**, and to provide an annual record of what they have achieved in pursuit of such considerations (number 3.2.2. in the tables of measures and activities);
- Produce **a guide on social reporting** for SMEs that will inform what a social report is, what the benefits of reporting are, provide instructions on how to get started with reporting, and outline past social reporting experiences of other companies (number 1.5.4. in the tables of measures and activities).

## 2.4. Ministry of Finance

- Introduce social and environmental considerations (such as certification to CSR related standards; adherence to the eight fundamental ILO conventions or UN Global Compact principles) among the **pre-selection and awarding criteria of large public tenders** (number 3.1.6. in the tables of measures and activities);
- Include social and environmental obligations among the **clauses of public procurement contracts** (for example, favouring the inclusion of disadvantaged groups in the realisation of the contract) (number 3.1.6. in the tables of measures and activities);
- Grant **simplified administrative procedures and fiscal incentives** to companies that are certified to CSR related standards (number 3.1.5. in the tables of measures and activities);

- **Promote payroll giving** as a way for employees to donate to the charity of their choice from their gross pay before tax;
- Incorporate **EU directives on transparency** in the Law on Securities;
- **Amend the Law on Investment Funds** to include a requirement for institutional investors to disclose whether they take into account ethical, environmental and social aspects in their investment decisions, and to provide an annual record of what they have achieved in pursuit of such considerations (number 3.2.2. in the tables of measures and activities);
- Establish and promote a **responsibility label for financial products**, that would certify their social and environmental quality (numbers 3.1.2. and 3.1.3. in the tables of measures and activities).

## 2.5. Ministry of Education and Science

- Encourage and support the **incorporation of CSR in the educational process**, especially in the curriculum of business schools (number 1.5.2. in the tables of measures and activities);
- Support and coordinate CSR research (number 1.2.2. in the tables of measures and activities).

## 2.6. Ministry of Agriculture, Forestry and Water Economy

- Promote **organic production**; support farmers and companies during the implementation and certification process; campaign for adequate fiscal incentives (numbers 3.1.4. and 3.1.5. in the tables of measures and activities).

## 2.7. Ministry of Local Self-government

- Establish **regional networks** to initiate partnerships between companies, community organisations and local public authorities to tackle local social, economic and environmental challenges through development measures and neighbourhood renewal strategies addressing problems of social exclusion, poverty and unemployment in specific disadvantaged areas (numbers 1.1.1. and 1.3.1 in the tables of measures and activities).

### 3. MEASURES ON PROMOTING CSR IN OTHER GOVERNMENT DOCUMENTS

Macedonia's Government has already envisaged specific measures on promoting CSR or particular aspects of CSR in its official documents.

The recent **Programme for stimulating Investment in the Republic of Macedonia (2007–2010)**, prepared by the Ministry of Economy of the Republic of Macedonia, for the first time on the national government level is envisioning measures specifically directed to CSR. The Programme and the Programme Matrix have a subsection on corporate social responsibility, within the section on corporate governance, which calls for establishment of a working group on promoting CSR within the Economic and Social Council of the Government, by 2008. This, along with the envisaged comprehensive analysis of CSR activities in the country and identification of main drivers for company involvement in these activities, was already accomplished, one year prior to the deadline set in the Programme. Other measures envisaged in the document are:

- establishing basic indicators for monitoring CSR, by 2008;
- regular campaigns for raising CSR awareness among the companies and main stakeholders, by 2008;
- enhancing the capacities of national/local stakeholders to effectively contribute to the promotion and implementation of CSR (in 2007);
- adopting a national CSR agenda, as a result of a multi-stakeholder dialogue, by 2008.

Chapter 4.6 "Creating financial conditions for sustainability of the civil sector" of **The Strategy for Cooperation of the Government with the Civil Sector**, accompanied by an Action Plan for Implementation (2007–2011), prepared by the Government of Republic of Macedonia (General Secretariat, January 2007) includes:

- creating a more favourable policy for indirect financing of civil society organizations (introducing benefits

from the corporate tax, VAT, property tax, etc., and stimulating the development of philanthropy, social responsibility and volunteering);

- monitoring the application of the current tax provisions addressing philanthropy and securing benefits and stimulus for businesses and the citizens to support civil society organizations;
- developing cooperation with businesses in order to enhance their positive influence in the development of the community and jointly promote greater social responsibility;
- cooperation with businesses and civil society organizations to support programmes for socially responsible enterprises;
- preparation of a bill on volunteering and its adoption, as well as a strategy on promotion and development of volunteering.

The following activities are envisioned to be taken for promoting philanthropy:

- preparation of proposed amendments to the tax laws (corporate tax, VAT, personal income tax);
- plan for monitoring of the implementation of the Law on donations and sponsorship of public activities;
- joint inter-sectoral organization of events on promotion of philanthropy and social responsibility.

The **National Strategy for European Integration of the Republic of Macedonia in the EU**, Sector for European Integration, May 2005, includes reference on improving corporate governance within the context of needed business sector reforms.

Nevertheless, there is a need for greater effort in implementation of the mentioned measures and activities. The Government needs to show greater commitment and demonstrate continuous efforts and even go further if it is to adopt an ambitious approach in promoting CSR.



# IMPLEMENTATION

## G. Organization and coordination of activities

The national Coordinating Body on CSR, as a permanent working group of the Economic and Social Council of the Government, is in charge of developing multi-stakeholder dialogue and identifying joint actions for CSR promotion and implementation. The Ministry of Economy acts as a coordinator of CSR promotion activities on behalf of state institutions, and this role should be formalized with a government decision.

The Body serves as a key focal point for CSR promotion activities in Macedonia, as a coordinator of the various sectors and actors involved in this field, and on the basis of the Baseline study on CSR and this National Agenda it will develop CSR action plans. The national Coordinative Body should submit proposals, strategic directions and an action plan to the Economic and Social Council.

The Coordinating Body will:

- serve as a multi-stakeholder forum for policy dialogues and consultations between various CSR stakeholders;
- coordinate activities on promoting CSR among the members and other organizations working in Macedonia and serve as driving force for joint action;
- disseminate knowledge and best practice cases among members and other organizations working in Macedonia through initiating and preparing informational materials on CSR as well as learning, dialogue and advocacy events;
- advocate a better environment for CSR for organizations working in Macedonia;
- promote and raise support and resources for activities for CSR promotion;
- offer assistance in project and policy development;
- initiate research on CSR issues;
- establish a set of performance indicators in the area of CSR;

- examine and “localize” the underlying international documents, relevant to CSR, in order to identify issues that can be addressed by the private sector, the civil society and the government.

### Composition of the national Coordinating Body on CSR

#### Business associations

- Economic Chamber of Macedonia
- Macedonian Chambers of Commerce
- Economic Chamber of North-western Macedonia

#### Organizations of employers

- Organization of Employers of Macedonia
- Confederation of Employers of the Republic of Macedonia
- Association of Employers in the Area of Transport and Communications

#### Labour unions

- Federation of Trade Unions of Macedonia
- Union of Independent Autonomous Trade Unions
- Confederation of Free Trade Unions of Macedonia

#### Academia and experts

- SS. Cyril and Methodius University, Faculty of Economics in Skopje
- Independent CSR expert

#### Other organizations

- Macedonian network of the UN Global Compact
- Consumer Organization of Macedonia

#### Media

- Media representative

#### Government

- Ministry of Economy
- Ministry of Labour and Social Policy
- Ministry of Environment and Physical Planning

## H. Potential sources of funding

CSR increasingly attracts funding both from multilateral as well as bilateral donors, on the basis of prepared action plans, especially as EU funds are concerned. Also, other international development agencies, such as the World Bank (World Bank Institute), UNDP, USAID, InWent, provide funds for specific areas of CSR.

Regarding funds from the EU, Macedonia as a candidate country approaching the phase of establishing a date for starting accession negotiations should rely to a greater degree to this potential source of funding. Those funds are especially relevant in relation to small and medium-sized enterprises. Further opportunities for funding exist under the European initiative for democracy and human rights as well as co-financing with European NGOs.

In the long run, after Macedonia becomes an EU Member State, it will become eligible for the EU Social fund, which also provides for grants under CSR and in particular in relation to vocational training. The EU funding for projects in the fields of social dialogue, industrial relations and CSR

under the budget heading 04.03.03.01 (under employment and social affairs) would also be relevant.<sup>37</sup>

The Government, with its long-term strategic vision and plans, can steer external funds into the most needed areas and ensure coordination between different initiatives. By demonstrating good results in key areas, such as protection of socially vulnerable groups, workers' rights and strengthening social dialogue among social partners, the Government could provide for a platform and good indication to attract further external attention and funding.

Despite external funding opportunities Macedonia's Government funds are crucial and should form the incentive for local governments' and other stakeholders' financial participation. With this in mind, the Government must include CSR activities and supporting mechanisms in the process of budget planning. In this way it will not only take the responsibility for CSR development and implementation, but can also attract additional funds on basis of co-financing opportunities from Macedonia's private sector and external sources.

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<sup>37</sup> Final report of the international consultant on Corporate Social Responsibility commissioned by the EC/UNDP project to assist in the preparation of the national CSR agenda, Mr. Sune Skadegaard Thorsen, 2008.

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