VNESHECONOMBANK

CORPORATE SOCIAL RESPONSIBILITY

A NEW BUSINESS PHILOSOPHY

TEXTBOOK

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INTRODUCTION

Vnesheconombank would like to bring to your kind attention a training manual in corporate social responsibility (CSR) and sustainability. Being, in a sense, a guide to CSR, it gives a definition of CSR, traces its evolution both in Russia and abroad, discusses modern trends, including non-financial reporting and major Russian and international initiatives and standards in this regard, as well as focuses on the specifics of CSR as applied to financial institutions. The Manual is intended, primarily, for employees and representatives of the Bank's subsidiaries and partners. However, we do hope that it may be of interest to all those who are not indifferent to the issues of sustainable development.

The Manual could be seen as a logic continuation of Vnesheconombank's efforts in promoting CSR ideas and principles. The objectives and mission of the Bank as the major financial institution to pursue the state investment policy are intrinsically non-commercial and socially oriented. At the same time, the scale of the tasks accomplished makes the Bank particularly responsible for the social and economic well-being and environmental soundness. To ensure efficient management of non-financial aspects of business and greater contribution to the sustainable development, Vnesheconombank has to respond to a number of challenges. Such challenges could be met by developing the CSR system and integrating principles of environmental and social responsibility into the Bank's operations.

The financial crisis of 2008 added a fresh impetus to rethinking the role of business in attaining the goals of sustainability, and responsibility towards the society. In its search for more efficient tools to manage risks including the social and environmental ones, the business confronts the problems of integrating CSR principles in its activity at the system level. This is particularly true for financial institutions, which are experiencing increased attention from both the state and the public.

When 10 years ago corporate social responsibility was first put on the agenda in Russia, few believed that it would take roots in our soil. However, skeptics proved to be wrong. Today, we can see the ideas of corporate social responsibility enjoying more and more support and popularity among Russian companies. We hope that the publication of our training manual in CSR would promote this process and help the Russian business realize new opportunities opened up by CSR.

V.A. Dmitriev

Chairman of Vnesheconombank

I. CORPORATE SOCIAL RESPONSIBILITY

HISTORY

Today, corporate social responsibility, or CSR, is increasingly in demand in the business community. CSR is being discussed at the highest levels. CSR-related issues are top of the agenda at most prestigious international forums. Increasingly more companies declare their commitment to the CSR concept. But what does this notion actually imply? To better comprehend what CSR stands for, let us have a brief excursion into history.

> *"The rich man is not one who is in possession of much, but one who gives much".*
>
> *John Chrysostom*

Charity might be viewed as one of the first manifestations of social responsibility that goes back generations. Primarily, this phenomenon was of private character, since decisions on charity were taken by enterprise owners. However, now it is corporate charity practiced and managed on behalf of companies that is increasingly propagated.

As the scope of industrial activity broadened, the range of issues relating to social responsibility of business expanded. Thus, the industrial revolution at the end of 19th century accompanied by stronger competition and labour movement induced some companies to improve working conditions for salaried employees and provide business partners with additional guarantees. This served as the groundwork for development of such modern CSR lines as responsible labour and business practices.

Nevertheless, it was not until the middle of the last century that social responsibility came to be mentioned as a wide-spread social phenomenon. It was exactly at that time that West-European and North-American countries started to actively integrate CSR in their activity. Later on, they were joined by rapidly developing economies, including Russia. Simultaneously, the CSR phenomenon attracted closer attention of economists, sociologists and other representatives of the scientific community engaged in the respective research.

Over the past few decades, business made considerable progress in realizing its responsibility to protect environment, resolving social and economic problems, and improving the quality of life of local communities, respect human rights, combat corruption and deal with other socially important issues. Consequently, corporate social responsibility is gradually becoming a new business philosophy, and its followers aim not only at profit earning but also at public welfare and environmental stability.

"Many people assume, wrongly, that a company exists solely to make money. Money is an important part of a company's existence. However, a group of people get together and exist as an institution we call a company so they are able to accomplish something collectively that they could not accomplish separately – they make a contribution to society".

David Packard,
Co-founder of Hewlett-Packard

CSR in the West

In economically developed countries, rapid development of CSR in the 60's-70's of the 20th century was triggered off by the strengthening movement of public groups criticizing companies' activities and decisions, consumers refusing to buy goods and services from irresponsible companies, as well as by increasing activity of trade unions. Simultaneously, labour and environmental legislation in the Western Europe and USA was made tougher, and a number of public initiatives emerged to promote corporate social responsibility.

By the beginning of the 21st century, the majority of big western companies developed their CSR policy, and the CSR concept became the subject of the corporate management course at leading schools of economics.

The financial sector responded to an increasing role of CSR by introducing the practice of responsible finance. Its distinctive feature is that finance decisions are taken not only with due regard for the economic viability alone but environmental and social factors as well.

To assess companies' performance in terms of CSR and sustainable development, such stock indexes as Dow Jones Sustainability Index (DJSI) and FTSE-4GOOD were developed.

CSR in Russia

In Russia, corporate social responsibility started to develop in the last decade. Since then, the number of Russian companies incorporating the CSR principles into their business is constantly increasing. This fact may be attributed to the Russian business's active entry into international markets, as well as companies' desire to make their business look more civilized, improve their reputation in the stakeholder eyes, as well as reduce non-financial risks.

> *"Social mission of the contemporary Russian business community is, primarily, to achieve the sustainable development of independent and responsible companies, which meets long-term interests of shareholders, complies with social objectives of the society and promotes social peace, safety and welfare of the citizens, as well as environmental protection and human rights".*
>
> *I.Yu. Yurgens,*
> *Chairman of the Board,*
> *Institute of Contemporary Development*

Today, the need for increased social responsibility of business is recognized at the highest governmental level. Noteworthy, in such processes, state corporations and companies with state participation have a special role to play. Thus, in June 2010, President of the Russian Federation Dmitry Medvedev instructed the Government of the Russian Federation "to outline proposals on the procedure for using voluntary mechanisms of environmental responsibility in companies with state participation, as well as on mandatory publication by 100% state-owned corporations of non-financial reports on sustainability and environmental responsibility".[1]

[1] Instruction N PR-1640 dd. June 6, 2010 given by the President of the Russian Federation based on the results of the Russian State Council Presidium Meeting dd. May 27, 2010.

DEFINITION

The past years witnessed emergence of a whole raft of CSR definitions. However, after the publication in 2010 of ISO 26000 "Guidance for Social Responsibility", the majority of experts have come to share the opinion that the definition contained in this standard is, as of today, the most accurate and complete one:

- *"social responsibility* – is the responsibility of an organization for the impacts of its decisions and activities on the society and environment through transparent and ethical behavior, which:
  - contributes to sustainable development, including health and the welfare of society;
  - takes into account the needs and expectations of stakeholders;
  - is compliant with applicable laws and consistent with international norms;
  - is integrated and implemented throughout the organization".[2]

Social responsibility is applicable to all organizations. However, it is mostly widely spread in the business community as *the corporate social responsibility (CSR)*.

To better understand this phenomenon, it would be useful to familiarize oneself with other CSR definitions:

- "promotion of the responsible business practices that benefit the business and society and enhance social and environmental sustainable development by maximizing the business's positive

[2] International Standard ISO 26000 "Guidance for Social Responsibility"

social impacts and minimizing negative load on the environment";[3]

- "the business commitment to contribute to the sustainable economic development, labour relations with employees, their families, local communities and society on the whole in order to improve the quality of their lives";[4]

- "ensuring commercial success by means based on the ethic standards and respect towards people, communities and environment".[5]

The United Nations Development Program (UNDP) and Association of Russian Managers have prepared a report "On Social Investment in Russia in 2004: the Role of Business in Social Development", which contains a broader definition of CSR as applied to Russia:

- "corporate responsibility towards the society is defined as a philosophy of conduct and concept of the activity to be undertaken by the business community, corporations and enterprises, in the context of the following areas:
  - production of quality goods and services for consumers;
  - creation of attractive new jobs, payment of legitimate wages, investment in HR development;
  - compliance with statutory requirements (tax, environmental, labour, etc.);
  - efficient conduct of business focused on creating economic value and increased prosperity of the shareholders;
  - meeting public expectations and generally accepted ethical standards in business practice;
  - contribution in building up civil society by way of partnership programs and projects on the local community development".[6]

Vnesheconombank defines corporate social responsibility as: "a voluntary contribution by an organization in societal development in social, economic and environmental areas, as directly related to the company's core activity and mainly made in addition to regulatory requirements".

Despite some differences in the above definitions of CSR, these have certain common traits, which makes the following conclusion possible:

The key aim of corporate social responsibility is to accomplish the objectives of the sustainable development of the society, which, in its turn, implies meeting the needs of the present generation without compromising the ability of future generations to meet their own needs.

Corporate social responsibility is about promoting the interests and life quality of the company's main stakeholders, i.e. employees, shareholders, investors, public authorities, customers, business partners, professional communities, society as a whole, etc. In doing so, companies should

3 International Forum of Business Leaders
4 World Business Council for Sustainable Development.
5 Business for Social Responsibility – a leading association of USA corporations
6 Report on Social Investment in Russia. Association of managers, 2004

engage in ongoing interaction with stakeholders to capture their opinions and expectations in decision-taking and implementation.

CSR principles should be introduced into the companies' operation on a systemic basis and integrated into all business processes. In decision-taking, companies should consider not just economic but also social and environmental aspects in order to be able to manage them and be accountable for their social and environmental impacts. It is equally important for companies to realize that CSR is not an optional addition to the core activities, neither is it limited to philanthropy.

CSR principles help companies more efficiently accomplish their strategic goals by providing favourable social environment for long-term investment. Thus, the business satisfies its major needs of survival, safety and sustainability.

LEVELS OF CSR APPLICATION

Now that the CSR rationale is well in place, let us proceed to practical issues. To begin with, we suggest examining the stages a company passes from social irresponsibility to the highest level of CSR.

Devising a CSR system is a complicated multi-stage process that would take considerable time and require sustained effort from a company.

Strict adherence to the legislation is a fundamental principle of CSR. Consequently, the first thing a company aspiring to CSR should do is analyse its business activity and bring it in full conformity with the letter of law. This is a so-called basic compliance level of CSR.

At the next stages, the CSR concept gets increasingly broader to include voluntary initiatives (in addition to the legislation) aimed at resolving social and economic problems, environmental improvement, improvement in production quality, fostering innovations, etc. Generally, at the initial stages, such initiatives are occasional and unrelated to the company strategic objectives. This is the managerial stage of CSR development. However, gradually the CSR system starts penetrating the entire activity of the company and becomes its philosophy. And, finally, CSR gets seamlessly integrated into the company's long-term strategy and corporate governance reaching the strategic advantage stage.

The last and highest civil stage of CSR development implies active actions taken by the company to lobby the business community, including business partners, suppliers and professional communities, for CSR principles. As a result, the company becomes a provider of social responsibility ideas, thus creating the environment for further collective actions to bring about positive changes.

According to the model offered by M. Porter and M. Kramer[7], corporate social responsibility may be, for the purpos-

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7 Porter M., Kramer M., "Strategy and Society: the Link Between Competitive Advantage and Corporate Social Responsibility"; Harvard Business Review, 2006. 2006.

es of discussion, divided into the responsive and strategic. Responsive CSR is aimed at mitigation of the existing problems and negative impacts of the company's activity. As for strategic CSR, this implies incorporating CSR ideas into the company's strategy and ensuring a long-term competitive edge. Development of strategic CSR shows the best correlation with the switch from the logic of "social costs" to that of "social investments".

COMPANY'S CSR DEVELOPMENT STAGES	
Civil Stage	A company lobbies all businesses in the industry to adopt the CSR principles.
Strategic Advantage Stage	A company integrates CSR into its development strategy for a long-term perspective.
Managerial Stage	A company assumes some voluntary CSR commitments that produce positive impacts in the short- and long-term perspective.
Compliance Stage	A company conducts its business to match the society's expectations fixed at the legislative level.
Defensive Stage	A company does not admit its responsibility and denies the blame for the negative social and environmental impacts of its activity.

MAJOR LINES

This section demonstrates how a company may put ideas of corporate social responsibility to practical use. The left column of the table below contains major lines of CSR that are most urgent in the current Russian environment. Given opposite are practical steps that may be taken to ensure positive changes by the lines mentioned.

However, it does not suggest that companies should strive to cover all the aspects and lines of CSR. Not only is it hardly possible, but trying to do that will distract a company from focusing on the issues that are of major importance for it.

No doubt, some CSR lines (e.g., responsible attitude to employees or reduction of negative environmental impacts, including setting up a "green office") are equally important for practically all companies. Other aspects of CSR may be of special significance for some companies and, at the same time, have no relevance for the others. Thus, for financial businesses, the key aspect of CSR is responsible finance as discussed in the next chapter of this Training Manual.

In defining the CSR priorities, a company should be guided, primarily, by the business specifics. It is important because, as we have learned from the above-said, CSR should seamlessly fit in the company's strategy, policies and governance system and permeate all business processes. In other words, a company should view its core business from the CSR angle, and contemplate how it could proceed with greater benefit for the society and environment.

Moreover, it is essential to examine expectations of stakeholders, i.e. employees, business partners, customers, shareholders, representatives of public authorities, etc. Their vision of the company CSR aspirations is a valuable source of information to decide on the CSR priority lines.

When a company takes a path of CSR, it has to rightly estimate its capabilities and resources. Maybe, one should not be aspiring for too much at the very outset. Rather, the company should commit itself to several priority lines and seek to achieve efficiency gains there. Then, on acquiring some CSR experience, it would be easier to expand the range of CSR lines.

It is worth noting that as the time goes by, and external, as well as internal conditions change, the CSR priorities may change just as well. For this reason, it's imperative that companies regularly assess and revise their CSR activity.

CSR: PRIORITY LINES AND IMPLEMENTATION TOOLS	
LINES	SOCIALLY RESPONSIBLE PRACTICES
Responsible HR practices	• Transparent procedures for staff hiring, promotion and remuneration, as well as employment termination • Occupational health and safety • Training and professional development programs • Additional social benefits and guarantees (medical, pension and housing programs, sanatorium treatment, etc.) • Observing the right of employees to freedom of association and collective bargaining • No discrimination and equal opportunities for all employees irrespective of their race, gender, religion, national or social background, political views, age, etc. • Fostering corporate culture and creating non-material incentives for employees • Maintaining the right balance between employee duties and private life

CSR: PRIORITY LINES AND IMPLEMENTATION TOOLS	
LINES	SOCIALLY RESPONSIBLE PRACTICES
Environmental Protection	• Reducing all types of pollution (air and water emissions, waste treatment, etc.) • Developing innovative technologies aimed at the efficient use of power, water and other resources • Reducing consumption of non-renewable resources • Conservation and restoration of biodiversity and natural ecosystems • Combating, and adapting to climate change (reducing greenhouse gas emissions, planning activities based on the global and local climate change forecasts) • Demonstrating commitment to environmental issues when organizing office work (reducing consumption of paper, power and water, waste treatment, reducing business trips and substituting them by videoconferences, raising environmental consciousness of employees, etc.)
Fair Business Practices	• Observing the principles of fair competition, antitrust and antidumping policies • Counteracting legalization (laundering) of illicit gains, combating the financing of terrorism and corruption • Creating additional incentives (including the financial ones) to integrate CSR principles into the suppliers and business partners' activity (capture of environmental and social factors in the course of procurement and investment activity) • Promoting CSR principles in the business community (arrangement of conferences, trainings, and various industry events, etc.) • Supporting public political processes to develop and implement government policies of increased public benefit
Responsible Customer Practices	• Production of quality goods and services safe for health and life of consumers • Fair disclosure of product and service information • Indemnification procedures for goods and services of inadequate quality • Confidentiality of consumer personal information • Production and promotion of goods and services with a social and environmental edge (recyclable and reusable, with a longer durability, using renewable sources of energy and resources, etc.)

CSR: PRIORITY LINES AND IMPLEMENTATION TOOLS	
LINES	SOCIALLY RESPONSIBLE PRACTICES
Local Communities Development	• Creating new jobs and raising stuff qualification in the presence regions • Support for local suppliers and producers • Investments in expanded and diversified economic activity in regions, promotion of innovative technologies and implementation of local initiatives • Investments in regional education, culture, public healthcare, housing and utilities construction, etc. • Respecting rights of indigenous population
Charity and Volunteering	• Implementing and supporting social programs aimed at protection of disadvantaged people, and creating a favourable social and cultural environment • Devising a system to stimulate employee participation in volunteering

ROLE OF FINANCIAL SECTOR

When speaking of corporate social responsibility, representatives of the financial sector tend to say that their activity does not considerably impact the environment and life quality of local communities. To justify their position they refer to mining and processing companies that create direct environmental impacts. However, they appear to forget the special functions of financial institutions. It is precisely where the financial sector would opt to channel funds that the development of real economy and its social and environmental impacts depend on.

The financial sector plays a leading role in promoting CSR ideas, principles and practices among the business community.

To appropriately respond to the challenges confronting it, the financial sector has come up with the practice of responsible finance. What is it noted for? In a broad sense, responsible finance implies that financial institutions make investment with due regard to environmental and social factors. Investment in affordable residential development and energy efficiency projects is one of the manifestations of responsible finance. Furthermore, a number of financial institutions engaged in investment on the securities market take into account issuer performance in a wide range of sustainability issues.

Responsible finance procedures for project finance comprise evaluation of the impacts the respective project may exert on the environment and life quality of local communities, both on the site and, in some cases, on a greater scale. For projects with a high level of environmental and social impacts, a borrowing company will be required to elaborate and produce a plan to manage various risks. In some cases, responsible finance procedures may also require consultations with the local community and responding to the complaints of the community whose interests might be affected. Besides, implementation of any project must be coupled with on-going monitoring and evaluation of its environmental soundness and social acceptability.

Financial institutions adopt various approaches to integrate the responsible finance principles in their operation. Some institutions decide in favour of the in-house procedures. Others engage in this activity by joining various initiatives, of which the Equator Principles (for additional information see the section on major CSR standards and initiatives) are the most widespread.

In making investment decisions, financial institutions may be driven by sustainability indexes designed to evaluate the level of corporate social responsibility. The best-known among such indexes are Dow Jones Sustainability Index (DJSI) and FTSE4GOOD.

Today, the principles of responsible finance are becoming increasingly popular with the international business community. They are actively promoted by such authoritative institutions as the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), as well as regional banks for development including the European Bank for Reconstruction and Development (EBRD), the African Development Bank Group, the Asian Development Bank, etc. These are followed by private and state banks.

In Russia, responsible finance still remains one of the less developed CSR areas. Actually, the Russian legislation provides for mandatory environmental impact assessment (EIA) for any activities involving potential environmental risks. However, this mechanism fails to ensure full compliance with the requirements of such major foreign investors as IFC. This results in serious obstacles in the path of Russian financial institutions seeking foreign loans and hinders the national business access to foreign markets. That explains VEB's focus on promoting the principles of responsible finance in Russia.

MANAGEMENT MECHANISMS

Once the CSR priority lines are identified, a company should consider the structure of its internal CSR management system, from decision-making and implementing mechanisms to monitoring and efficiency assessment. Normally, most of the CSR governing procedures are defined in internal corporate documents (strategies, policies, provisions, etc.). These are so-called organizational mechanisms of CSR management, which are of special importance for large companies. At the same time, there are a number of value-setting mechanisms that aim to enhance the management and employees' commitment to CSR principles.

As the practice demonstrates, companies that combine organizational and value-setting mechanisms to manage the CSR processes deliver best outcomes.

Indeed, an excessive focus on numerous provisions and policies neither appreciated nor shared by employees may result in good intentions dying on the vine. On the other hand, in the absence of a coherent and officially approved action plan and explicit separation of duties to deliver it, the work is very likely to get stuck.

CSR MANAGEMENT MECHANISMS	
ORGANIZATIONAL MECHANISMS	VALUE-SETTING MECHANISMS
• Devising and introducing CSR strategy • Devising and introducing provisions and policies to govern business operations by specific CSR lines (provisions on stakeholder engagement, ethical code, environmental policy, etc.) • Delegating the functions and responsibilities of CSR management to one of the top executives • Establishing in the company a specialized division (a unit, a department, etc.) responsible for CSR issues • Adding CSR-related provisions to the competency profiles of employees from other units • Setting up working groups to comprise representatives from various divisions of the company, by priority lines of CSR, etc.	• Integrating CSR principles into corporate culture, in particular, at the level of informal values shared by the management and the majority of employees • Demonstration by the management of commitment to CSR ideas through increased transparency, accountability and responsibility for its actions and decisions, willingness to engage in dialogue with employees • Devising an incentive system to stimulate those employees at every level who tend to promote and apply CSR principles in their work and achieve targeted results, etc.

STAKEHOLDER ENGAGEMENT

In their commitment to increased social responsibility, companies should invariably act in the interests of those for whom it is actually intended, i.e. stakeholders. In general, the stakeholder groups include shareholders, investors, state regulatory and controlling bodies, business partners and suppliers, employees and their professional unions, consumers of goods and services, public organizations, mass media, representatives of local communities in the company's presence regions, etc.

Why is it so important to encourage and foster stakeholder engagement? In the modern world, companies are under constant influence of a wide range of stakeholders, whose actions and decisions considerably impact business success. Greater globalization and rapid development of IT especially the Internet and social networks serve as still another stimulus. As a result, companies are confronted with a range of non-financial risks arising from the stakeholders' freedom to choose how to behave towards companies.

The most common non-financial risks include:

- *Social and labour risks* – lower business efficiency caused by outflow of qualified labour, as well as increased social tension in a company's presence regions through unpopular decisions related to employees and social infrastructure facilities.

- *Environmental risks* – negative impacts for business (including discontinuation of activity) resulting from detriment to environment or danger caused to the life and health of population.

- *Reputational risks* – lower income due to a negative public sentiment and reduced public confidence.

- *Corporate governance risks* – potential decrease in a company's value due to poor quality management, lack of coherent procedures to govern relationships between shareholders and management and insufficient disclosure transparency.

- *Regulatory risks (changes in laws and regulations)* – changes in requirements to various aspects of business operation: from licensing and taxation to employer/employee relations and environmental impact norms.

- *Political risks* – changes at political, administrative or national level that might result in a company's financial and other losses.

In view of potential non-financial risks, a company is confronted with the task of their management and mitigation. To this end, a company has to engage in dialogue with its stakeholders. Such engagement would increase company awareness of stakeholder expectations in respect of SCR implementation or their dissatisfaction with its actions. This would provide the basis for mutually beneficial decision-making and help plan the company's future activities with due consideration for the stakeholders' interests.

It is important for companies to understand that stakeholder engagement is not just about informing them of the business success. Stakeholder engagement is a regular and consistent process based on a dialogue between a company and its stakeholders. The key stages of this process include understanding stakeholder views and expectations as to what concrete steps should be taken to enhance a company's social responsibility; integrating stakeholder expectations in the company's operation; assessing the efficiency of the measures taken and informing the stakeholders accordingly; passing on to the next cycle of stakeholder engagement.

International practice provides for a number of guidelines and voluntary standards to govern various aspects and types of stakeholder engagement. Of them, the most widespread is the AA1000 Series by the Institute of Social and Ethical Accountability based in the UK (for more details see the section on the CSR initiatives).

Stakeholders are defined as entities or individuals that are considerably affected by the organization's decisions and activities or whose actions can affect the organization's activities.

Stakeholder engagement enables a company to seek stakeholder opinion on the following issues:

- top-priority areas of a company's CSR;
- actions the company should take to respond to the stakeholder interests and expectations;
- important CSR aspects the company is inclined to overlook;
- the company's actions and decisions causing stakeholder discontent, and the reasons behind it;
- the company's transparency: is it enough and are there any aspects of the business operation stakeholders would like but fail to obtain any information about.

STAKEHOLDER ENGAGEMENT MECHANISMS	
FORMS	TOOLS
Regular provision of information	Press-releases, reports, corporate website, information letters, etc.
Exchange of views (dialogue)	Talks, consultations, public hearings, round-tables
Identifying stakeholder opinions and interests	Surveys, questioning, focus-groups, internet-blogs, other on-line services, answers to inquiries
Participation in events organized by stakeholders	Reports, discussions
Expert discussions	Advisory and expert committees, working groups
Joint activity	Programs, projects, events, hammering out common positions on material topics

HOW CAN BUSINESS BENEFIT FROM CSR

Not only does a coherent and efficiently operating CSR system enable companies to deliver social value and environmental stability but it also enhances performance efficiency and business stability.

Increase in intangible assets is the most visible effect produced by CSR. The very fact that the majority of the world's largest corporations are leading in terms of CSR, serves as indirect evidence of the CSR positive impact on business performance. Though is appears to be rather difficult to establish a direct correlation between CSR and financial performance, such attempts have been made. Thus, in 1999, Conference Board, an analytical US-based organization, published data proving that the CSR-conscious companies' return on investment was 9.8% higher than that of their CSR-uncaring competitors. Similarly, the difference in the return on assets made 3.55%, and in profit - 63.5%. At the same time, according to experts, corporate IRresponsibility is very likely to adversely affect the economic performance.

In this section, we will examine the most significant impacts of CSR on the increased business efficiency:

- *Reputational Effect*

Enhanced corporate image is the most obvious outcome of a company's CSR-related activities. It contributes to growth in non-material assets of socially responsible companies, enhances the brand value and builds up a credit of trust, which, ultimately, has a positive impact on the sales level, quality of interaction with business partners and representatives of other stakeholders.

"Corporate responsibility underpins the effective business strategy, which contributes to the sustainable development of business, its competitiveness, efficiency and compliance with the objectives of societal development. For such perspective-driven businesses, corporate social responsibility is of undisputable significance to retain its positions".

E.N. Feoktistova, Head of Centre for Corporate Social Responsibility and Non-Financial Reporting of the Russian Union of Industrialists and Entrepreneurs

"A socially responsible company may expect to attract best human resources, which is the main factor behind the increase in the productivity of labour".

O.Yu. Golodets, Deputy Mayor of Moscow on Education and Public Health

"One can hardly overestimate the impact of CSR on the investment appeal of business: any investor taking an important decision on acquiring a block of shares in a company would assess all risks including the non-financial ones. If these are well-balanced, then CSR becomes a powerful factor in strategic development, strengthening business reputation and competitive edge, as well as increasing market capitalization of the company" .

A.E. Kostin, Executive Director at NP "CSR-Russian Centre"

"Inclusion in the S&P sustainability index will expand investment opportunities for companies. To be included in the index, companies must have high ratings on three parameters, i.e. environmental safety, social responsibility and corporate governance. Furthermore, the company weight in the index will be defined based on the collective estimate of such parameters. To assign ratings, S&P have devised a special methodology employing a wide range of indicators. Information on the indicators is available from public and specialized professional sources. The indicators capture characteristics affecting long-term sustainability and growth potential of business. In particular, it implies innovations in the production of environmentally safe and hi-tech products, efficient use of power and resources, the level of industrial impact on the atmosphere and environment, industrial safety and process quality, as well as efficient management and control tools in place, including those to counteract corruption and prevent conflict of interest".

Yu.V. Kochetygova,
Senior Director, Index Service,
Standard & Poor's

- *Stakeholder Engagement*

Engaging in a dialogue with stakeholders increases the company awareness of the stakeholder vision of CSR and helps it, wherever possible, integrate such expectations in the operational activity. As a result, a company creates around itself a positive environment that improves its business performance due to better understanding and support from a wide range of stakeholders.

- *Innovations*

Awareness of the stakeholders' needs and expectations enables businesses to offer products and services that are highly sought for in the society, and to develop new markets. Thus, business becomes, within the framework of its core activities, a provider of positive change and innovations, in particular, through support to scientific research, development of socially important products and services, development of vacant markets, and simultaneously increases its competitive advantage and efficiency.

- *Staff Loyalty*

Provision of competitive working conditions, opportunities for professional and career development, and corporate culture based on the universal human values enables companies to attract and retain skilled ambitious specialists, as well as improve staff loyalty and motivation. The latest western studies demonstrate that, all other factors being equal, jobseekers are more likely to give preference to socially responsible companies.

- *Saving*

Application of more productive and resource-efficient technologies creates additional opportunities for saving energy, water and other resources, as well as for reducing industrial waste. Furthermore, there is a positive correlation between CSR principles in place and increased labour productivity.

- *Attracting Investment and Entering Global Markets*

In assessment of company attractiveness in global stock markets, its CSR efficiency becomes an important consideration for investors. An ever increasing number of financial institutions applying the principles of responsible finance is still another incentive to strengthen social responsibility of business.

- *Increasing Management Efficiency and Minimizing Non-Financial Risks*

Integration of environmental and social aspects into management decision making enables a company to broaden its planning horizons and capture a wider range of risks and eventualities thus ensuring prerequisites for a long-term business development.

II. NON-FINANCIAL REPORTING

OBJECTIVES AND HISTORY

Emergence and development of CSR initiatives stimulated companies' desire to make public their record of doing good for the society and the environment. That was how first non-financial reports appeared in the West in the 70-s of the last century. Unlike financial reports intended primarily for shareholders and analysts, the non-financial ones were meant for a wider range of stakeholders.

Initially, non-financial reports very much like advertising booklets and performed PR functions. However, their content gradually changed becoming better balanced and more analytical in character, whereas the report preparation process was getting more complex. As a result, non-financial reporting acquired the function of an analytical and planning tool in the field of CSR. The report preparation process was expanded to include the analysis of a company's environmental, social and economic efficiency, as well as stakeholder engagement and non-financial risk identification.

Increased quality and expanded functions of non-financial reporting have, in many respects, contributed to the publication of many methodological guidelines, including Sustainability Reporting Guidelines by the Global Reporting Initiative (GRI), which is most popular today. GRI was established by the Coalition for Environmentally Responsible Economies in partnership with the United Nations Environment Programme. The Guidelines contain a list of standard topics and performance indicators to be covered in the report, and offer recommendations on the report preparation process, define report content and boundaries and ensure its quality. More detailed information about the GRI Guidelines will be provided in the section on CSR initiatives.

"Corporate social responsibility is a tool to be used by the society to assess a company's activity, its social responsibility, and the social programs it offers both to its employees, shareholders, customers and the society in general".

A.L. Khazin, Professor at the Higher School of Economics, Member of the General Council of United Russia Party

"Not only does the preparation of non-financial reporting enhance investment attractiveness but it also helps manage business while allowing for timely identification and analysis of risks inherent in various aspects of a company's activity".

E.A. Topoleva, Director of the Social Information Agency, Member of the Public Chamber of the RF

In the modern understanding, a non-financial report is reflective of a company's economic, environmental and social performance in the field of sustainable development (the so-called triple bottom line) and performs two major functions:

- informs stakeholders of the company's achievements;
- helps increase CSR management efficiency.

Basically, publication of non-financial reports is a voluntary initiative of business. However, in some countries such as France, Norway, Denmark, Sweden, Finland, Holland, certain companies, e.g. the state ones, are legally obliged to report on their operating results by certain CSR lines and indicators.

The majority of globally known companies with a high capitalization ratio produce non-financial reports on a regular basis. The largest database of corporate non-financial reporting is the International Register of Corporate Non-Financial Reports. As at the beginning of 2011, the Register contained over 30 thousand reports by more than 7500 companies.

In Russia, the first non-financial reports appeared in early 2000-s. Today, about 100 of Russian companies engage in non-financial reporting. As at July 2011, the National Register of Corporate Non-Financial Reports maintained

Non-financial reporting enables a company to:

- position itself as a socially responsible market player;
- enhance transparency, openness and accountability;
- improve international reputation;
- foster stakeholder engagement and encourage confidence in the company;
- upgrade ratings and improve investment attraction, in particular, in the context of accessing the international stock markets;
- improve environmental, social performance and business ethics performance;
- indentify, assess and prevent non-financial risks;
- increase the quality of corporate governance.

by RUIE numbered 263 reports of which 14% accounted for the financial insurance sector.

"The Government considers that the major prerequisites for successful implementation of the social policy include efficient interaction between business and society, with CSR serving as the major tool".

A.E. Shadrin, Head of Strategic Management (Programs) and Budgeting Department, the Russian Ministry of Economic Development

Remarkably, Vnesheconombank and Rosatom were the first Russian state corporations to publish in 2010 their sustainability reports. Both reports were prepared in compliance with the GRI Sustainability Reporting Guidelines.

TYPES OF REPORTS

Since non-financial reporting is, in most cases, a voluntary initiative, it is the prerogative of a company to decide on the report topics. It is entirely the company choice whether to apply the existing standards or not, as well as whether to issue both paper and electronic versions or just an electronic one and where to publish it. However, at this stage, there are some well-defined trends and best practices, which are to be discussed in this section.

In terms of the content, the most complete report shall contain disclosures on the company's performance in 3 areas, i.e. economic, social and environmental. Depending on the company's interpretation of the basic notion of corporate social responsibility, such reports may be entitled "Report on Social (or Global) Citizenship", "Report on (Corporate) Social Responsibility", "Sustainability Report", "Report on Corporate Responsibility and Sustainability", etc. Most of CSR experts share the opinion that at the present stage, a comprehensive report on sustainability ensures the best quality of disclosure.

Nevertheless, a reporting company may deliberately narrow the range of topics it is going to cover in its report, by issuing subject reports, e.g. "Social and Environmental Report", "Environmental and Ethical Report", "Environmental and Local Community Engagement Report", etc.

The best non-financial report is the one containing information, which makes it possible to asses the quantity and quality of a company's intangible assets, governance specifics and management competence, as well as strategic priorities and corporate potential – i.e. the report on corporate social responsibility and sustainability".

M.I. Liborakina, Deputy Director General for Strategy "ATOMREDMETZOLOTO"

Lately, a trend has developed for combining information about financial and sustainability performance in an integrated report. So far, only a few companies have produced such reports. However, there is a growing sentiment that the future belongs to them.

First non-financial reports by European countries basically covered the environmental aspects of activity. By the late 90-s, reports tended to become more detailed and comprehensive and embraced increasingly more issues. The last decade showed a global trend for the preparation of comprehensive sustainability reports, the number of which increased to reach 75% of the total number of reports.

In Russia, the majority of companies still give preference to social reports. According to RUIE, out of 38 reports presented in the financial and insurance sector as at the beginning of September 2011, only five including the one by Vnesheconombank, are sustainability reports.

As a rule, non-financial reports being public in character are intended for a wide range of stakeholders, i.e. they are external reports. However, a company may produce an internal report for a smaller group of stakeholders, such as employees. In this case, it will be available only for the target audience.

Non-financial report may be prepared both in a freeform and in accordance with the specific guidelines and standards. Companies are allowed to prepare their reports using any guidelines and standards or several guidelines to more precisely define and present the key topics to the reader. Today, the most widely used reporting system is the one offered by the Global Reporting Initiative (GRI) already mentioned above. Furthermore, companies' reporting is often based on the AA1000 standards and UN Global Compact. These are discussed at length in the next section hereof.

PREPARATION STAGES

In this section, we are going to examine the specifics of the non-financial report preparation and the way it differs from the work on any other public document containing disclosures of a company's activity. As we have already mentioned, a non-financial report is not a mere information product but rather an instrument for analysing and planning a company's CSR-related activity. Why is it so?

First, it is very important to engage in the report preparation process representatives from key stakeholder groups, both internal (employees from the company's structural divisions) and external (customers, business partners, suppliers, shareholders, investors, authorities, etc.). Engaging stakeholders in the report preparation is aimed at understanding and capturing their views about what disclosures of the company's CSR-related activity should be included in the report. That will both help raise the report quality and materiality for the stakeholders and make it possible to find out their concerns and priority lines of CSR development.

There are a number of methods to interact with stakeholders in the course of the report preparation. In Russia, it is public hearings and dialogues with stakeholders that are becoming increasingly popular. Stakeholder engagement may take place at various stages of the report preparation. For example, it may be in the form of consultations when defining the report concept, selecting priority topics and setting boundaries for the report, discussing a draft report or obtaining feedback on the document already published.

Second, regular non-financial reporting enables a company to set up a system to monitor environmental and social performance when collecting report data. By comparing the data for the reporting period with those in the previous year, as well as by setting targets for the next reporting period, the company devises a frame of reference enabling it to assess and plan its CSR-related activity.

Third, a standing working group established to prepare non-financial reporting and composed of representatives from various structural divisions is a powerful driver to unite within the company all those who share CSR ideas and disseminate them among their colleagues.

Preparation of non-financial reports is a continuous process, which is not confined to data retrieval and publication. It is based on interacting with stakeholders whose opinion is taken into account when defining the report content. No less important is active engagement of representatives of the company various structural divisions and management in the report preparation process.

Given below is the table in which we attempted to present an ideal scheme of work on non-financial reporting. The scheme would allow a company to maximize the benefit from the report.

REPORT PREPARATION: GENERAL PLAN		
STAGES		ACTIONS
Step 1	**Planning of the report preparation**	• Establishing a working group to prepare the report • Drafting a report concept including key topics to be covered and major stakeholder groups - recipients of the report • Approving a schedule of work on the report
Step 2	**Adjusting the report content based on the stakeholder engagement**	• Discussing (correspondence, telephone talks, personal meetings, questioning, etc) and defining with the representatives of major stakeholder groups those CSR aspects which, from their point of view, should be reported • Analysis of the stakeholder feedback and introducing the respective amendments to the report concept
Step 3	**Data retrieval and preparation of a draft report**	• Requests to structural divisions for information on major CSR lines to be disclosed in the report in compliance with its concept • Information collection and analysis, preparation of a draft report

REPORT PREPARATION: GENERAL PLAN		
STAGES		ACTIONS
Step 4	**Collection and analysis of commentaries. Preparation of the final version of the report**	• Discussing and finalizing a draft report with structural divisions, summarizing the commentaries and feedback • Discussing a draft report with stakeholders (subject to respective decision on public hearings and/or dialogues with stakeholders as part of the report preparation) • Analysing stakeholders' proposals relating to amendments to the report and selecting those that may be taken into account when preparing the current report or working on the next one • Preparing the final version of the report based on commentaries from structural divisions and stakeholders
Step 5	**Preparation of the report for publication**	• Developing a design concept of the report Text editing and page layout • Assurance of the report by internal auditors • External assurance (subject to the respective decision) • Approval of the report by the company's senior management
Step 6	**Publication and distribution of the report**	• Posting an electronic version of the report on the company's website. Preparation of a printed version • Informing stakeholders of the report's release (dissemination of press-release, presentation and dissemination of the report at topical events, sectoral exhibitions, conferences, target dissemination of the report, etc.)

ASSURANCE

To enhance public confidence in their reports, companies employ various methods including a set of internal instruments such as internal audit, as well as external assurance of the report that comprises:

- *non-financial audit* – information verification procedure by professional auditors. Non-financial audit results in an auditor's opinion included in the report.

- *public assurance* – expert evaluation of the report by external stakeholders. The objectives of the public assurance may differ and include assessing materiality and completeness of the information presented in the report, verifying that the report was prepared with due consideration with stakeholder views and expectations, producing stakeholders' recommendations as to how develop various CSR lines and make disclosures in non-financial reports. The outcome of the public assurance is a public assurance statement included in the report and signed by stakeholder representatives.

AWARDS FOR NON-FINANCIAL REPORTS

Growing popularity of non-financial reporting all over the world has resulted in numerous global and national contests and various nomination awards for the best reports. However, only the major and authoritative ones deserve attention. Winning such competitions or rewards enhances a company's prestige and evidences its considerable achievements in CSR.

Among international non-financial reports competitions worth mentioning are two prestigious awards, which are really corporate social responsibility highlights of the year:

- *Readers' Choice Awards* was established by the Global Reporting Initiative in 2007. Based on the readers' open on-line voting, the award is given to reports posted on the GRI website. It is conducted every two years (various nominations). The winner in each of the nominations is chosen based on the number of the stakeholder votes or some other characteristics of the reports compliance with the stakeholder expectations.

In 2010, awards were given in 6 nominations:

- *The Engage Award* – for the majority of votes cast by managers and employees at all levels, etc.;
- *The Civil Society Award* – for the majority of votes cast by the representatives of the civil society, state institutions, scientific circles, etc.;
- *The Value Chain Award* – for the majority of votes cast by suppliers, partners, advertisers, consumers, advisers, auditors, etc.;
- *The Investor Award* – for the majority of votes cast by asset holders, corporate asset managers, rating agencies, banking institutions, financial publications, etc.;
- *The Readers' Choice Award* – an outright winner is chosen by summing up all the votes;
- *The Most Effective Report Award* – for the report that best matched reporters' objectives with readers' needs.

- *CorporateRegister.com (CR Reporting Awards)* was established in 2007 by CirporateRegister.com - the founder of the world's largest electronic base of non-financial reports. Winners are picked in 9 nominations: Best Report, Best 1st Time Report, Best SME Report, Best Integrated Report, Best Carbon Disclosure, Creativity in Communications, Relevance and Materiality, Openness and Honesty, Credibility through Assurance. Winners are chosen by on-line voting. Any registered users of CoroprateRegister.com may take part in the voting. According to the latest information, the number of registered users exceeds 35 thousand.

In Russia, the most authoritative awards for contribution to the development of non-financial reporting are:

- Annual competition of annual reports by Expert RA agency;

- Annual competition of annual reports by RTS and MICEX;

- Russian national competition "Best Russian Enterprises: Dynamics, Efficiency, Responsibility" by RUIE.

Notably, Vnesheconombank's 1st 2009 Sustainability Report was awarded two prestigious national awards: it ranked 3rd in the nomination "Best CSR and Sustainability Report' of the RTS XIII Annual Competition of Annual Reports and was the winner in the nomination "Best Debut 2010 in Non-Financial and Sustainability Reporting" of the RUIE competition "Best Russian Enterprises: Dynamics, Efficiency, Responsibility – 2010".

III. BASIC CSR STANDARDS AND INITIATIVES

INTERNATIONAL STANDARD ISO 26000: GUIDANCE ON SOCIAL RESPONSIBILIT

ISO 26000 was established on the initiative of the International Organization for Standardization (ISO) and published in 2010. The standard was developed with the participation of some 400 CSR experts representing more than 90 countries including Russia. The standard is intended not only for the corporate sector but also for the state and non-commercial ones.

The standard provides guidance on:

- concepts, terms and definitions related to social responsibility;
- the background, trends and characteristics of social responsibility;
- principles and practices relating to social responsibility;
- the core subjects and issues of social responsibility;
- integrating, implementing and promoting socially responsible behaviour throughout the organization and, through its policies and practices, within its sphere of influence;
- identifying and engaging with stakeholders; and
- communicating commitments, performance and other information related to social responsibility.

The standard is designed to:

- assist organizations in contributing to sustainable development;
- promote common understanding of CSR;
- complement other instruments and initiatives on social responsibility rather than replace them.

The standard is not intended for certification purposes. It is used on a voluntary basis and may be applied by all types of entities in any countries.

ISO 26000 formulates the following principles of social responsibility applicable to organizations:

- accountability – be accountable for social, economic and environmental impacts;
- transparency – be transparent in decisions and activities that create social and environmental impacts;
- ethical behavior – behave ethically;
- respect for stakeholders' interests – demonstrate respect for, take account of, and respond to stakeholder interests;
- rule of law – admit that the rule of law is mandatory;
- adherence to the international rules of conduct – adhere to the international rules of conduct subject to the rule of law principles;
- human rights – respect human rights and acknowledge their priority and universal character.

According to ISO 26000, there are seven major lines of CSR:

- administration;
- human rights;
- labour practices;
- environmental protection;
- fair business practices;
- consumer-related issues;
- participation in the community life development.

For more information please visit the link: http://www.iso.org/iso/catalogue_detail?csnumber=42546

GRI SUSTAINABILITY REPORTING GUIDELINES

GRI Guidelines are the internationally recognized and the most popular non-financial reporting guidelines developed by the Global Reporting Initiative in 2000. The Guidelines are intended for use as a generally accepted framework for non-financial reporting on economic, environmental and social outcomes (triple bottom line) of the organization's sustainability performance.

The Guidelines comprise principles and recommendation relating to the arrangement of the reporting process. It also includes standard disclosures on the organization's strategy and profile, approaches to management, as well as economic, environmental and social performance in terms of sustainable development.

According to GRI, today, about 80% out of the 500 global companies use GRI Guidelines for their sustainability report-

The GRI Guidelines recommend to observe a number of principles ensuring the quality of reported information:

- ***balance:*** the report should include both favorable and unfavorable results of the organization's performance, as well as the problems it faces and actions it takes to resolve them;
- ***comparability:*** reported information should be presented in comparison with the organization's past performance and, where possible and expedient, sectoral indicators;
- ***reliability:*** reported information should be gathered from reliable sources, recorded, compiled and analyzed;
- ***accuracy:*** the report should specify methods used to gather and compile information, and sources of data underlying the conclusions contained in the report;
- ***timeliness:*** reporting should occur on a regular schedule and become available in time for stakeholders to make informed decisions on the reporting organizations;
- ***clarity:*** the report should present information in a way that is understandable, accessible and usable by the organization's stakeholders.

ing. By way of example, the GRI Guidelines users include Kreditanstalt fuer Wiederaufbau (KfW), Asian Development Bank (ADB), Inter-American Development Bank (IDB), European Bank for Reconstruction and Development (EBRD), Bank of America Corporation, European Investment Bank (EIB), China Development Bank (altogether, over 200 foreign financial institutions).

Depending on the number of standard disclosures and indicators, the report is assigned GRI's application level (from C to A being the highest level).

The GRI Guidelines also comprise Sector Supplements, which provide recommendations on the Guidelines application in the context of specific sectors, as well as sector-specific performance indicators. One of the Supplements is intended for the financial sector. According to GRI, the Financial Services Sector Supplement is used by more than 130 organizations all over the world.

The year 2010 witnessed the completion of the Russian version of the GRI Financial Services Sector Supplement. It was prepared by Vnesheconombank based on the formal agreement with GRI. Publication of the Sector Supplement helped enhance the quality of the Russian financial institutions' reporting and its compliance with the international standards.

Advantages of GRI Guidelines reporting framework:

- it may be used by organizations of any size, sector, or location;
- it may be gradually introduced into the organization's operation, starting from incomplete list of disclosures and indicators to be subsequently extended;
- it allows for matching and comparing the reports with each other;
- the report preparation process enhances the organization's CSR management efficiency and promotes stakeholder engagement.

For more information please visit the website at: http://www.globalreporting.org

ACCOUNTABILITY'S AA1000 SERIES OF STANDARDS

AccountAbility's AA1000 Series of Standards have been developed by the British Institute of Social and Ethical Accountability. AccountAbility's AA1000 series are principles-based standards to help organizations become more accountable, responsible and sustainable. They address issues affecting governance, business models and organizational strategy, as well as provide operational guidance on sustainability assurance and stakeholder engagement.

The AA1000 Series of Standards are characterized by the systems approach to stakeholder engagement as a factor contributing to the improved quality of governance and accountability.

The AA1000 Series of Standards comprise:

- *The AA1000 AccountAbility Principles Standard,* which provides a framework for an organization to identify, prioritize and respond to its sustainability challenges. Other AA1000 Series standards are based on this standard and aimed at the implementation of these principles.

- *The AA1000 Assurance Standard,* which provides methodology for assurance practitioners to evaluate the nature and extent to which an organization adheres to the basic AccountAbility Principles.

- *The AA1000 Stakeholder Engagement Standard,* which provides a framework to help organizations ensure stakeholder engagement processes are purpose driven, robust and deliver results in CSR area.

For more information please visit the website at: http://www.accountability.org/standards/index.html

Underlying the AA1000 Series of Standards are three basic principles:

Inclusivity

For an organization that accepts its accountability to those on whom it has an impact and who have an impact on it, inclusivity is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

Materiality

Materiality is determining the relevance and significance of an issue to an organization and its stakeholders. A material issue is an issue that will influence the decisions, actions and performance of an organization or its stakeholders.

Responsiveness

Responsiveness is an organization's response to stakeholder issues that affect its sustainability performance and is realized through decisions, actions and performance, as well as communication with stakeholders.

UNITED NATIONS GLOBAL COMPACT

The United Nations Global Compact (UN GC) is a UN initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles of social responsibility.

The UN GC principles cover the following areas:

- Human rights
- Labour
- Environment
- Anticorruption

The principles are voluntary and universal, i.e. applicable to organizations of all types.

An organization joining the UN GC commits to making the Global Compact and its principles an integral part of the business strategy, day-to-day operations and organizational culture.

The idea of the Global Compact was announced by United Nations Secretary-General Kofi Annan at the World Economic Forum in Davos, Switzerland, in January 1999.

Today, the Global Compact is the major initiative on social responsibility and sustainable development. As at the middle of 2011, it united over 8000 participants, of which 6000 were businesses from 135 countries. In particular:

- National Australia Bank (Australia)
- Citi (USA)
- Raiffeisen Zentralbank Group (Austria)
- Kjaer & Kjaer A/S (Germany)
- Telenet Group Holding NV (Belgium)
- BNP Paribas (France)
- Deutsche Postbank AG (Germany)
- Renault SAS (France)
- China Development Bank (China)
- Islandsbanki (Iceland)
- Israel Discount Bank Ltd. (Israel)

The Ten Principles of the Global Compact

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility;

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

- EFG Hermes (Egypt)
- Swedish Export Credit Corporation (Sweden)
- Platinum Bank (Ukraine)
- Caja General de Ahorros de Canarias (Spain)
- Korea Technology Finance Corporation (Korea)
- Ceylon Asset Management Co. Ltd. (Sri-Lanka)

The Ten Principles of UN GC are based on:

- The Universal Declaration of Human Rights;
- Declaration on Fundamental Principles and Rights at Work;
- The Rio Declaration on Environment and Development;
- The United Nations Convention Against Corruption.

In Russia, the framework of UN GC has been operating since 2008. As at the middle of 2011, it has been joined by some 50 Russian organizations including:

- UK RUSAL
- OJSC LUKOIL
- JSFC "Sistema"
- OJSC "NK "Rosneft"
- OJSC Russian Railways
- FC "URALSIB"
- RUIE
- Sakhalin Energy Investment Company Ltd

By joining the UN GC framework, an organization undertakes to:

- incorporate the UN GC principles in the decision-making processes of the highest-level governance body;

- contribute to sustainability development objectives (including the Millennium Development Goals);

- integrate in its annual report a description of the ways in which it implements the principles of the UN GC and supports sustainable development objectives;

- promote the UN GC and responsible business practices among business partners, customers, consumers and the public at large.

Benefits of participation in the UN GC:

- an international platform to share and exchange best practices;
- the opportunity to promote efficient sustainability solutions among a wide range of stakeholders, including UN agencies, governments and civil society;
- the opportunity to cooperate with Global Compact local networks around the world and, in particular, in emerging markets;
- access to the UN's extensive knowledge, resource base and practical instruments of sustainable development.

To participate in the Global Compact, the highest ranking business executive sends a letter of intent to the UN Secretary-General affirming the company's commitment to the ten principles, stating its willingness to cooperate to promote the UN objectives and once a year to submit a communication on progress.

For more information please visit the website at: http://www.unglobalcompact.org/

THE UNITED NATIONS ENVIRONMENT PROGRAMME FINANCE INITIATIVE

The UNEP Finance Initiative (UNEP FI) is a unique global partnership between the United Nations Environment Programme and the financial sector to promote the principles of corporate social responsibility and sustainability among financial institutions. These principles are fixed in the UNEP FI Statements, which are to be signed by an organization wishing to join the Initiative.

Engaged in promoting sustainability principles, UNEP FI:

- studies and disseminates best practices among the financial sector participants;
- develops guidelines and other implementation tools that help other organizations to integrate CSR principles and increase their sustainability efforts;
- engages in training and capacity building, organizes international, national and regional conferences;
- participates in developing global environmental policy;
- provides networking opportunities for Members and stakeholders.

Major benefits member can enjoy from their involvement with UNEP FI:

- access to extensive international database and best practices;
- opportunity to participate in global initiatives;
- enhanced corporate image.

To join the UNEP FI, financial institutions have to sign the UNEP Statement by Financial Institutions on the Environment and Sustainable Development thus demonstrating their commitment to its principles, pledging themselves to integrate environmental and sustainability considerations in their policies and operations, recognizing the financial sector's leadership role in sustainable development of the economy and society, and undertaking to introduce nature conservation measures in all aspects of their activity.

Background

In 1991, a group of commercial banks including Deutsche Bank, HSBC Holdings, Natwest, Royal Bank of Canada and Westpac joined forces with UNEP to catalyse the banking industry's awareness of the environmental agenda. In May 1992, in the run up to the Rio Summit that year the UNEP Statement by Banks on the Environment and Sustainable Development was launched in NewYork, and the Banking Initiative was formed.

Later on, the Initiative was joined not only by banks but by other financial institutions as well. At this stage, the Banking Initiative was renamed the UNEP Financial Institutions Initiative (FII).

In 2003, FII merged with the Insurance Industry Initiative (III) forming one Initiative to be known as the UNEP Finance Initiative.

UNEP STATEMENT BY FINANCIAL INSTITUTIONS ON THE ENVIRONMENT AND SUSTAINABLE DEVELOPMENT	
Commitments to Sustainable Development	We regard sustainable development as a fundamental aspect of sound business management
	We believe that sustainable development can best be achieved by allowing markets to work within an appropriate framework of cost-efficient regulations and economic instruments Governments in all countries have a leadership role in establishing and enforcing long-term common environmental priorities and values
	We regard the financial services sector as an important contributor towards sustainable development, in association with other economic sectors
	We recognize that sustainable development is a corporate commitment and an integral part of our pursuit of good corporate citizenship
Environmental Management and Financial Institutions	We support the precautionary approach to environmental management, which strives to anticipate and prevent potential environmental degradation
	We are committed to complying with local, national, and international environmental regulations applicable to our operations and business services We will work towards integrating environmental considerations into our operations, asset management, and other business decisions, in all markets
	We recognize that identifying and quantifying environmental risks should be part of the normal process of risk assessment and management, both in domestic and international operations With regard to our customers, we regard compliance with applicable environmental regulations and the use of sound environmental practices as important factors in demonstrating effective corporate management
	We will endeavor to pursue the best practice in environmental management, including energy efficiency, recycling and waste reduction We will seek to establish business relations with partners, suppliers, and subcontractors who follow similarly high environmental standards
	We intend to update our practices periodically to incorporate relevant developments in environmental management We encourage the industry to undertake research in these and related areas
	We recognize the need to conduct internal environmental reviews on a periodic basis, and to measure our activities against our environmental goals

UNEP STATEMENT BY FINANCIAL INSTITUTIONS ON THE ENVIRONMENT AND SUSTAINABLE DEVELOPMENT	
	We encourage the financial services sector to develop products and services which will promote environmental protection
Public Awareness and Communication	We recommend that financial institutions develop and publish a statement of their environmental policy and periodically report on the steps they have taken to promote integration of environmental considerations into their operations
	We will share information with customers, as appropriate, so that they may strengthen their own capacity to reduce environmental risk and promote sustainable development
	We will foster openness and dialogue relating to environmental matters with relevant audiences, including shareholders, employees, customers, governments, and the public
	We ask the United Nations Environment Programme (UNEP) to assist the industry to further the principles and goals of this Statement by providing, within its capacity, relevant information relating to sustainable development
	We will encourage other financial institutions to support this Statement We are committed to share with them our experiences and knowledge in order to extend best practices
	We will work with UNEP periodically to review the success in implementing this Statement and will revise it as appropriate

As at the middle of 2011, the UNEP FI comprised over 200 organizations to include:

- ABN AMRO Group (the Netherlands)
- Bank of Montreal (Canada)
- Bank of Tokyo-Mitsubishi UFJ (Japan
- Barclays PLC (Great Britain)
- BNP Paribas (France)
- CAIXA Economica Federal (Brazil)
- CaixaBank (Spain)
- Citigroup Inc. (USA)
- Credit Suisse Group (Switzerland)
- Industrial Bank Co., Ltd. (China)
- KBC Group (Belgiun)
- KfW IPEX-Bank GmbH (Germany)
- Nordea Bank AB (Sweden)
- National Australia Bank Ltd.(Australia)
- Standard Bank of South Africa Limited (SAR)
- Intesa Sanpaolo S.p.A.(Italy)

44% of the signatories are Europe-based financial organizations and 28% come from the Asia-Pacific Region.

For more information please visit the website at: http://www.unepfi.org/

EQUATOR PRINCIPLES

The Equator Principles (EPs) are a credit risk management framework of ten principles for determining, assessing and managing environmental and social risk in project finance transactions.

The EPs are adopted voluntarily by financial institutions and are applied where total project capital costs exceed US$10 million. The EPs are primarily intended to help take responsible decisions with due consideration for risk factors.

Financial institutions adopt the Equator Principles to ensure that the projects they finance are developed based on the SCR principles and in compliance with sound procedures for managing environmental impacts. The EPs are intended to serve as a common baseline and framework for implementation by each adopting institution of its own internal social and environmental policies, procedures and standards related to its project financing activities.

Equator Principles Financial Institutions (EPFIs) commit to not providing loans to projects where the borrower will not or is unable to comply with their respective social and environmental policies and procedures that implement the EPs.

The EPs also apply to the project finance advisory services. EPFIs commit to inform borrowers of the content, procedure and benefits of the EPs and demand that borrowers confirm their intention to comply with the EPs when subsequently applying for financing.

The Equator Principles help financial institutions:

- prevent or mitigate negative impacts on ecosystems and local stakeholders;
- achieve balance between the interests of investors, borrowers and local stakeholders.

History of the Equator Principles

In October 2002, nine international banks convened in London, together with the World Bank Group's International Finance Corporation, to discuss ways to assess and manage the environmental and social risks associated with project financing. Four of the banks present – ABN Amro, Barclays, Citi (formerly Citigroup) and WestLB – volunteered jointly to develop a banking industry framework for addressing such risks that could be applied globally and across all industry sectors.

At the time, the best, most commonly known and widely tested environmental and social policy frameworks in the finance sector were those established and used by the International Finance Corporation in emerging markets. These standards included Environmental and Social Safeguard Policies, Pollution Prevention and Abatement Guidelines and risk categorization screening criteria. These standards served as the basis for a new system developed by the banks and known as the Equator Principles.

The EPs were launched and adopted by ten banks on 4 June 2003. In 2006 due to the review by IFC of its standards, the EPs were respectively revised. Currently, the EPs are in the process of updating. In 2010, the EP Association was established to promote efficient cooperation between the signatory organizations.

THE EQUATOR PRINCIPLES	
PRINCIPLES	DESCRIPTION*
1. Review and Categorisation	When a project is proposed for financing, the EPFI will, as part of its internal social and environmental review and due diligence, categorise such project into A, B and C (Category A implying the highest and C – the lowest potential risks) based on the magnitude of its potential impacts and risks in accordance with the environmental and social screening criteria of the International Finance Corporation (IFC)
2. Social and Environmental Assessment	For each project assessed as being either Category A or Category B, the borrower has conducted a Social and Environmental Assessment process to address the relevant social and environmental impacts and risks The Assessment should also propose mitigation and management measures relevant and appropriate to the nature and scale of the proposed project
3. Applicable Social and Environmental Standards	For projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the Assessment will refer to the then applicable IFC Performance Standards and the then applicable Industry Specific Environmental, Health and Safety Guidelines (EHS Guidelines) For High-Income OECD Countries, successful completion of an Assessment process in compliance with local or national law is considered to be an acceptable substitute for the IFC Performance Standards and EHS Guidelines
4. Action Plan and Management System	For all Category A and Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the borrower has prepared an Action Plan (AP) which addresses the relevant findings, and draws on the conclusions of the Assessment Borrower will build on, maintain or establish a Social and Environmental Management System that addresses the management of these impacts, risks, and corrective actions required to comply with the AP For projects located in High-Income OECD countries, EPFIs may require development of an Action Plan based on relevant permitting and regulatory requirements, and as defined by the host-country law

* It's a brief description of the EPs. Official version is available at: www.equator-principles.com.

THE EQUATOR PRINCIPLES	
PRINCIPLES	DESCRIPTION
5. Consultation and Disclosure	For all Category A and, as appropriate, Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income the government, borrower or third party expert has consulted with project affected communities To ensure their informed participation, the Assessment documentation and AP, or non-technical summaries thereof, will be made available to the public The consultations will be held at early stages, before the project construction commences, and on an ongoing basis
6. Grievance Mechanism	For all Category A and, as appropriate, Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income the borrower will establish a grievance mechanism as part of the management system This will allow the borrower to timely receive and facilitate resolution of concerns and grievances about the project's social and environmental performance raised by individuals or groups from among project-affected communities
7. Independent Review	For all Category A projects and, as appropriate, for Category B projects, an independent social or environmental expert will review the Assessment, AP and consultation process documentation in order to assist EPFI's due diligence, and assess Equator Principles compliance
8. Covenants	For Category A and B projects, the borrower will covenant in financing documentation to comply with all the relevant host country social and environmental laws; to comply with the AP during the construction and operation of the project; to provide periodic reports on compliance with the AP and the laws Where a borrower is not in compliance with its social and environmental covenants, EPFIs will work with the borrower to bring it back into compliance to the extent feasible, and if the borrower fails to re-establish compliance within an agreed grace period, EPFIs reserve the right to exercise remedies, as they consider appropriate
9. Independent Monitoring	To ensure ongoing project monitoring, EPFIs will, for all Category A projects, and as appropriate, for Category B projects, require that the borrower retain qualified and experienced external experts to verify its monitoring information

THE EQUATOR PRINCIPLES	
PRINCIPLES	DESCRIPTION
10. EPFI Reporting**	Each EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience

** EPFI – an Equator Principles Financial Institution

By the mid of 2011, 72 Equator Principles Financial Institutions in 27 countries had officially adopted the EPs, covering over 70 percent of international project finance debt in emerging markets.

The EPFIs comprise:

- ABN AMRO Group (the Netherlands)
- Bank of Montreal (Canada)
- Bank of Tokyo-Mitsubishi UFJ (Japan)
- Barclays PLC (Great Britain)
- BNP Paribas (France)
- CAIXA Economica Federal (Brazil)
- CaixaBank (Spain)
- Citigroup Inc. (USA)
- Credit Suisse Group (Switzerland)
- Industrial Bank Co., Ltd. (China)
- KBC Group (Belgium)
- KfW IPEX-Bank GmbH (Austria)
- Nordea Bank AB (Sweden)
- National Australia Bank Ltd.(Australia)
- Standard Bank of South Africa Limited (SAR)
- Intesa Sanpaolo S.p.A.(Italy)

European financial institutions (47%) account for the largest share in this list, next come organizations located in North America – 17%.

Adoption by a financial institution is voluntary but once such adoption has been made, the adopting entity must take all the appropriate steps to implement and comply with the EPs. The prospective Equator Principles Financial Institution or Associate is required to complete the respective agreement and contact form and email or fax them to the Equator Principles Secretariat.

For more information please visit the website at: http://www.equator-principles.com/

THE RUIE SOCIAL CHARTER OF THE RUSSIAN BUSINESS

The Social Charter of the Russian Business is a code of fundamental principles of socially responsible business practices applicable to day-to-day operation of any entity. The Charter was developed in 2004 on the initiative of the Russian Union of Industrialists and Entrepreneurs (RUIE).

The Social Charter may be joined by any entity employing hired labour and/or promoting the fundamental principles of the Charter.

In 2007, the Social Charter was officially recognized as a national document complying with the UN Global Compact.

To join the Social Charter, an entity has to complete a registration form and submit it to RUIE.

The Social Charter signatory institution:

- in its business practice is guided by the principles of the Social Charter;
- openly supports the Social Charter and advocates its principles;
- aspires for operational transparency and supports non-financial reporting initiatives;
- agrees to use the Social Charter logo;
- promotes dissemination of information about the Social Charter and helps monitor the adoption procedure.

As at the middle of 2011, the Charter has been adopted by more than 230 companies and organizations totaling 5 million employees. The Charter signatory companies comprise:

- RAO UES of Russia
- OJSC TMK
- GMK Norilsk Nickel
- OJSC Russian Railways
- OJSC British American Tobacco – Yava
- OJSC Wimm-Bill-Dann Foods
- OJSC Lukoil
- UC RUSAL

The Social Charter principles:

- help companies assess their contribution to sustainability and prepare non-financial reports;

The Social Charter is a voluntary initiative by the Russian business. It is based on the understanding and recognizing by the business community of an active role the business plays in the social development. Underlying the Charter are the principles of economic freedom and social responsibility.

- increase efficiency of corporate governance;
- increase efficiency of social dialogue and collective bargaining agreements;
- increase efficiency of interaction with public authorities.

The basic performance indicators system developed by RUIE is in line with international recommendations on CSR and, simultaneously, adjusted for the Russian environment.

In addition to the Social Charter, RUIE has developed a basic performance indicators system, i.e. a system of economic, social and environmental performance indicators of a company in terms of sustainability. These indicators may be used in preparation of non-financial reports, as well as to promote efficient corporate governance.

RUIE comprises the Council for Non-Financial Reporting, which gives public assurance of corporate reports to confirm materiality and completeness of the information on company performance in compliance with the Principles of Responsible Business Practice established by the Social Charter of the Russian Business.

THE RUSSIAN BUSINESS SOCIAL CHARTER PRINCIPLES	
Economic freedom and responsibility	The strength and the greatest value of entrepreneurship responsible for the national welfare are based on the freedom of economic activity, a possibility for each company to express its individuality, and fair competition
Partnership in business	Shareholder, owner and investor trust is one of the key values in our activity We view employees as the major asset of any company. We regard human life as the supreme value. For us, no compromise is acceptable between employee health and safety, and profit earning We see the mission of our activity in reliable and quality satisfaction of the consumer needs and expectations We build our relations with business partners on the basis of mutual respect
Human rights	We acknowledge the inviolability of human rights and we never allow their breach. We take decisions with consideration for such rights
Environmental protection	We regard environmental protection as a major universal value
Participation in local community development	We realize that our companies and employees form an integral part of the society and we adhere to the principle of responsible citizenship

For more information please visit the web-site at: http://рспп.рф/library/view/7?s=1

IV. GLOSSARY

We would like to conclude our Manual with a glossary of the most commonly used CSR terms, as well provide some brief information on the major CSR initiatives and organizations undertaking them. In this section we are summing up our journey through the world of CSR, which, we hope, was interesting and would be helpful to you in your work.

AccountAbility's AA1000 Series of Standards – a series of standards relating to various aspects of stakeholder engagement developed by the British Institute of Social and Ethical Accountability to enhance business transparency and sustainability.

Business ethics – a set of ethic principles and norms companies are guided by in stakeholder engagement, decision-making and implementation.

Charity (philanthropy) – the practice of an individual or corporation donating assets, including financial ones, to other individuals or corporations, as well as execution of work or services, and other support without wanting anything in return.

Corporate charity fund – a fund established using corporate funds and engaged in charitable activities.

Disadvantaged group – a group the members of which are discriminated or suffer from negative social, economic, cultural or political conditions on the grounds of one or several reasons.

Dow Jones Sustainability Index (DJSI) – a family of sustainability indexes tracking the performance of companies included in Dow Jones indexes in terms of sustainability and corporate social responsibility.

Due diligence – a process for identifying actual and potential negative social, environmental and economic impacts of company decisions and operations.

Ecosystem – a biological system consisting of all living organisms and their environment.

Environmental efficiency – production of the same amount of goods and services using less resources and producing less waste with lower level of contamination.

Environmental impact assessment (EIA) – a formalized procedure for assessing potential positive and negative environmental impacts of any project.

Equator Principles – a voluntary standard of responsible finance developed by the World Bank Group IFC in partnership with a group of banks with a view to reducing social and environmental risks inherent in project finance.

FTSE4Good – a series of sustainability indexes designed to measure the performance of companies by the three lines: environmental sustainability, quality of stakeholder engagement and human rights.

Global climate change – gradual increase in the average annual temperature of the Earth's atmosphere and the World Ocean in the 20th-21st centuries, which, with high probability, is attributable to industrial anthropogenic effects.

Global Reporting Initiative (GRI) – an entity established in 1997 by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the UNEP to promote non-financial reporting on a global scale.

Green – often used to describe a product or activity that help prevent or mitigate environmental damage or promote efficient use and preservation of natural resources.

GRI Reporting Guidelines – major international standard of non-financial reporting developed by the Global Reporting Initiative and comprising a number of economic, environmental and social performance indicators that characterize company input in sustainability.

Human rights – civil, political, economic, social and cultural rights freedoms, inalienable and universal in nature, that all people are entitled to, including the right to life and liberty, equality before the law, freedom of thought and expression, right to work, food, adequate health care, education and social security.

International Labour Organization (ILO) – a specialized agency of the United Nations established in 1919 to promote the principles of social justice and internationally recognized human and labour rights.

International Organization for Standardization (ISO) – an international standard-setting body established in 1947 and composed of representatives from various national standards organizations. ISO has promulgated over 18500 international standards in various industries.

ISO 26000 Guidance on social responsibility – a guidance by ISO on concepts, terms and definitions related to corporate social responsibility, its core subjects and issues, as well as methods to integrate CSR throughout a company.

Millennium Development Goals – the eight principles of the United Nations Development Declaration aiming to reverse poverty and inequality, and accelerate progress on health and environmental protection, with a deadline of 2015.

Non-financial Report (Sustainability Report) – a tool to analyze and assess corporate economic, social and environmental performance, as well as to inform stakeholders accordingly.

Non-financial risk – a probability that the objectives established will not be achieved, or expectations will not be realized due to stakeholder counteraction.

Nonprofit organizations – organizations established to promote public welfare rather than earn profit. NPOs do not distribute their surplus funds among their participants.

Renewable energy – energy from sources that do not get exhausted or depleted as a result of human activities and are naturally replenished (energy from the sun, wind, rain, tide, geothermal sources, etc.).

Responsible finance – financial institutions capturing environmental and social risks inherent in the projects financed and customers, as well as devising adequate systems to manage such risks.

Social investment – a firm of financial support allocated for long-term programs on reducing social tension in company presence regions and raising living standards of various social groups.

Social responsibility – company responsibility for social and environmental impacts of its decisions and activities manifesting itself through transparent and ethical conduct, which:

- is in compliance with the sustainability principles and social welfare;
- meets stakeholder expectations;
- is in compliance with the international rules of conduct;
- permeates the entire activity of a company.

Stakeholder dialogue – specific communication established with the aim to build up relations with stakeholders and optimize non-financial risks related to a different vision of the future by a company and stakeholders.

Stakeholder engagement – efforts taken to engage in dialogue between a company and stakeholders to provide the basis for informed decision-making.

Stakeholders – physical and legal entities who impact or are impacted by company decisions and operations.

Sustainable consumption – use of products and services that have social and environmental advantages throughout the life cycle, to include recyclable, reusable, longer life-cycle products, as well as products produced using renewable energy sources and resources excluding cruelty to animal throughout the whole life cycle.

Sustainable development – a pattern of resource use that aims to meet the needs of the present generation without compromising the ability of future generations to meet their own needs.

The Kyoto Protocol – an international agreement signed in 1997 and linked to the United Nations Framework Convention on Climate Change. The major feature of the Kyoto Protocol is that it sets binding targets for industrialized and emerging economies for reducing greenhouse gas (GHG) emissions.

The Social Charter of the Russian Business – a voluntary initiative of the Russian business promoted by RUIE to strengthen the role of business in the societal development by integrating the CSR principles in its activities.

The Triple Bottom Line – assessment of company activities based on the input in economic prosperity, environmental quality and social capital.

The UN Global Compact – the major global CSR initiative aiming to align the global business activities with the ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

Transparency – openness with regard to corporate decision-making and operations that produce social, economic and environmental impacts, as well as readiness to provide stakeholders with the respective information.

United Nations Environmental Programme Finance Initiative (UNEP FI) – a global partnership between the United Nations Environment Programme and the financial sector to promote the principles of corporate social responsibility and sustainability among financial institutions.

Volunteering – voluntary and socially oriented activities aimed at positive social impacts.

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LLC ASI-Consulting is one of the leading expert companies specializing in projects on corporate responsibility and sustainable development, non-financial reporting and stakeholder engagement. The company has extensive experience of cooperation with Russian and foreign institutions.

АСИ КОНСАЛТИНГ

LLC ASI-Consulting has started the Business Club on Non-Financial Reporting, an informal group, to provide a forum for discussing professional aspects of reporting. Members of the Club include institutions and companies engaged in non-financial reporting, audit firms and expert organizations.

LLC ASI-Consulting is the owner and author of "Social Responsibility of Business", a specialized information resource (www.soc-otvet.ru).