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**DOING WELL BY DOING GOOD: CORPORATE SOCIAL
RESPONSIBILITY**

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**MODERATOR:
MR TOBIAS WEBB
(Ethical Corporation)**

THE MODERATOR: Welcome to the EBRD conference. I am delighted to be here today. I am Toby Webb from a magazine called Ethical Corporation, with a website called climatechangecorp.com. Before I introduce the panel, I will tell you a tiny bit about my organisation and why I am here.

I have been working with EBRD on this session for quite a few months now. I am delighted we have a good panel of speakers here for you today to talk about the different facets of corporate social responsibility and what it means in Central and East European former CIS states. You have all got a copy of one of our brochures on your chairs. We hold some events specifically on corporate social responsibility, so if you are interested in conferences, publishing and magazines, this is the magazine we publish, so please drop your business card outside on the table in the box and we will be happy to send you free copies of our publications. We have been publishing articles and running conferences on corporate social responsibility for seven or eight years, and we have probably the largest archive of on-line articles about the CSR for free on our website - ethicalcorporation.com. If you are interested in more reading about the subject, it is free on our website, so please do have a look at that.

I am very pleased that Chris Sorek and the team at EBRD asked me to moderate today because we have a fascinating panel for you. I will talk you through our different speakers, and then we will go through the running order. Each one of our speakers will speak for five minutes, with a minimum of PowerPoint, and then we will throw a couple of questions at them, and have at least half an hour for Q&A at the end of the session.

On my far left is Igor Chestin, Director of the World Wildlife Fund from Russia, an organisation I am sure you are all familiar with. Next to Igor is Thomas Eymond-Laritz, President of the Victor Pinchuk foundation. Thomas is also adviser to the Chairman of the board of East 1 on CSR policy, which is one of Victor Pinchuk's companies. Myself you know. Jock Mendoza-Wilson is here on my right; Jock is Director of Corporate Investor Relations at System Capital Management. I am sure you will all be familiar with System Capital Management, and if you are not you probably should be. Next to Jock is Andy Wilson, the Regional Vice President for Ukraine, Belarus and Moldova for the Eurasia Foundation; and last but not least

Rodion Kolyishko, Head of NGO Relations for the Industrial Union of Donbass Corporation, and he is legal adviser to the Confederation of Employees of Ukraine. You can see why I had to read all these titles out - some of them are a bit long! We will hear from Thomas, then Andrew, then Jock, Igor and finally Rodion. I will throw a couple of questions at them, and then we will open it up to the floor. Thomas apologises that he has to leave in about ten or fifteen minutes; he has been summoned by higher powers to meet some very important politicians at the Foundation. He will speak first, and then we are going to hear from Andrew and proceed down the running order.

MR EYMOND LARITAZ: I apologise for not being able to attend the whole session. I would like to talk mostly about something that very few people are talking about. In Ukraine, in Eastern Europe and in emerging countries we have a real revolution taking place. You do not see that in the media. This is a revolution of people doing good. The main aspect of this revolution is that now, which was not the case five or ten years ago, the main actors of doing good both in philanthropy and CSR became local protagonists. This is something totally new. In Ukraine until very recently 90 per cent of the money invested in social philanthropy and CSR came from the United States. That is no longer the case.

If you look at what is happening in China and in India, and in the whole of Eastern Europe, you find more and more local actors - business leaders and philanthropists - taking the lead in that direction. That means also that you have a much more important volume of money spent on those activities, either by the businesses or by NGOs, and much more visibility.

I am a French citizen who has been living and working for four years now in Ukraine. When I first arrived here, nobody was talking about CSR or philanthropy. Today, it would be difficult, over a period of two weeks, not to find any article in any newspaper about CSR and philanthropy; over a period of two or three months it would be difficult not to have a conference on CSR or on philanthropy. Everybody is talking about that. The local actors became engaged to an extent that surprised everybody, not only in Ukraine but elsewhere in the region and emerging countries.

When President Clinton started his Clinton Global Initiative in New York three years ago, that was mostly for American people and European people. Now, he is planning to do it next September in Asia, in Hong Kong, because this is a place where there are local actors that will need to be inspired and will need to commit. They will need to be gathered in order to move ahead in this very silent but very deep revolution. That means that the way to change things and to solve social problems is no longer a Western approach; it is a local approach. I think that politically it is very important to see that local protagonists are taking the destiny of their country into their own hands.

These people were doing a few things in the past, but it is important that they can now be inspired by the Western model in terms of size of activity, transparency and accountability; but at the same time the priorities are different from the US priorities. In the case of Ukraine, most of the money that was invested in social good a few years ago was about civil society, and the main protagonist was the George Soros Foundation in Ukraine, which still has an annual budget of US \$7 million. If you look at the main protagonists in philanthropy in CSR, they are local actors. In the Victor Pinchuk Foundation we had a budget of US \$16 million last year, and that will keep on increasing. Some other foundations also have very substantial budgets, and they work in different fields from those that the US foundation used to work in; but they also work in partnership, for example with the Eurasia Foundation, on different projects. Nevertheless, sometimes they have slightly different priorities.

We see in this business of doing good, a deep transformation of the Ukrainian leadership and the East European leadership. A few years ago it would have been very difficult to see the difference between a political party, a large-scale company, and the private property of the owner of this company who would also be the leader of the political party. Everything was mixed and confused. Step by step, individuals are making a clear distinction between their political involvement - or not, their business involvement, and their private activities. This is something that is totally new, which is very necessary for real accountability and transparency, for knowing who is doing what, just to avoid the idea that a private company is running a political party, for example, or that there is no difference between the political party and the private individual.

We are at the very beginning of this difference, this change; but you also see it in the business of doing good. You can see more and more clarity in the social business of a company, the CSR and the social activities of an individual independent from the company. Victor Pinchuk established the foundation as a private philanthropic foundation. That is totally independent from his corporation, East 1, which also has its own policy.

I recall that not many people questioned that because they did not understand the difference, and we had to explain the various differences because the CSR policy of the company is there to serve the goals of the company; it is doing business and investing socially in a way that is also good for the business. One has to acknowledge that. Doing CSR is good for the business and that makes it a business model. It is very different from private philanthropy where an individual has a vision and invests in a field for a specific social goal that does not bring any benefits to his company. There is a big difference.

I am happy to see that step by step in Ukraine and East Europe there is more and more clarity between what belongs to the field of business and what belongs to the field of private individuals; and this was just unimaginable three years ago. We have not only a revolution in volume but in who is doing good, in priorities, visibility, clarity and accountability. Is it politics; is it business; is it private philanthropy? That is extremely good for the development of civil society because it avoids any confusion about whether somebody is doing good for their business. **(Applause)**

THE MODERATOR: We have just heard from Victor Pinchuk's Foundation, a Ukrainian foundation, and you have talked about the revolution that has taken place over the last few years. How important is it, do you think, to stress the differences between what East 1 might do on corporate social responsibility and what your foundation would do on philanthropy? This is the third time I have been to Ukraine in the last six to eight months, and I have noticed here, as in other parts of East and Central Europe, that there is a huge amount of confusion between what is philanthropy and what is CSR. I heard of one company that is sponsoring a tiger in a zoo, and they present this as part of their CSR strategy, which it is not. We should all help tigers; they need our help; but this is not corporate social responsibility; this is

philanthropy! Time and time again we see this presented as part of a CSR strategy. How important do you think it is for organisations like yours and East 1 to point out the differences between philanthropy, which is a great thing and has its place, and CSR, which is much more of a corporate strategy?

MR EYMOND-LAVITAS: It is the foundation that is taking care of the tigers, not East 1, in our case.

The CSR policy is clearly associated with what is good for the company, so you would focus on the employees and their family, the local environments around the plants in all its aspects, for example hospitals, education, protecting the environment - basically targeted towards the main protagonists surrounding the business. It is a very different approach from what we do in the foundation where we have a vision for the modernisation of Ukraine, and we implement this vision with nation-wide or even international projects.

In some cases we are not so far from that. For example, we are very active in the fight against HIV/AIDS, both at the company level and the foundation level, but with a very different approach. At the company we work on preventing HIV/AIDS in the workplace; so we educate the workers and their families, and we help the local HIV/AIDS centres around the plants to be able to welcome the local community. At the national level we support the work of a foundation that is mostly in regard to information and prevention for the general public, by having TV spots, and last year a huge free concert, which had a huge impact on the sexual transmission of HIV/AIDS. For the first time in the history of Ukraine we saw that sexual transmission of HIV decreased, which is extraordinarily important. It is a very different approach.

In CSR we are working on the company and its immediate surrounding. In regard to philanthropy, we have a vision for the country and the region, and we implement it strategically in all the necessary fields.

THE MODERATOR: That is a very important and clear distinction. In the interests of time, and because Thomas has to leave in a few minutes, I am going to ask Andy Wilson to offer his thoughts on the region. Andy, you are responsible for not just

Ukraine but a couple of other countries as well. How do you see the agenda developing? I know you have framed some remarks, so can you take us through your perspective on this?

MR WILSON: I agree with Thomas - at least until he leaves the room! There has been a growth of activity on the side of companies and philanthropists in becoming engaged with communities over the last few years. I also agree that there has been a lot of discussion here in Ukraine and in a few other countries about corporate social responsibility.

I would like to turn it around a little and look at the perspective of the NGO. The Eurasia Foundation focuses on building local institutions, and I think that the average NGO out in the regions of Ukraine, Russia or Kazakhstan view the situation a little bit differently. Over the past 15 years or so there has been a steady growth of non-governmental organisations in the region, and these NGOs have evolved and are now playing a really important role in society by providing important educational and environmental health, community and other social services that are extremely important for their communities. It is safe to say that they form a very important part of the backbone of the evolving democracies in this region.

Much of this growth has been thanks to international aid agencies that have been working in the region for the last 15 years. Unfortunately, as Thomas alluded to earlier, the international aid community has been gradually shifting its focus away from this region, partly because the economies of Ukraine, Russia and Kazakhstan are growing, and there is a growing feeling that maybe these countries do not need as much support. The end result is, however, that the NGOs all of a sudden have felt a very steep dip in the resources available to them to provide the kinds of services they give at the community level.

This presents both a challenge and an opportunity to the business community. CSR is an opportunity in corporate partnership with the community to help build the gap for these NGOs. As Thomas said, there are a number of companies and philanthropies that are running very exciting partnerships in the region, but from my perspective I do not think it is enough. We have got off to a good start. There is a lot of discussion

about CSR, but we have a long way to go. We are sitting here with people who are running some of the most exciting corporate partnerships with the community in Ukraine, but these exciting cutting-edge CSR partnerships are only being done by a handful of domestic corporations in the international community, and we need to take CSR to the next stage.

There are a couple of barriers to this. The public in these countries has a different view of corporations than the public in more developed countries. There is an innate suspicion of all things corporate, and the public does not understand at this point what CSR is and why it is important for them. For that reason, I do not think companies feel the same kind of pressure from the public that they do in other countries.

The second barrier is the media. The media here has a tendency to provide good coverage of the good things that corporations are doing for their communities.

The third barrier is that a lot of companies - not those sitting up here today - but perhaps older, more traditional companies, do not yet see the economic value of CSR. They do not see that it can be a win/win for the community and the corporation; they look at it as another expense in their budget. They see a line of people and organisations coming to them for hand-outs without a benefit to the company.

To answer Toby's question as to what can companies do beyond straight philanthropy, first companies need to get out into the community and engage NGOs, find out what they are doing and encourage their employees to volunteer, just to learn what is going on. It is possible to do this at a very low cost. A number of companies run community partnerships that do not cost a lot of money.

It is really important for companies to publicise what they are doing. For a lot of people this might sound silly - of course you want to publicise what you are doing - but in these countries, when companies go out and talk about what they are doing that is good for the community, people suspect that they have a hidden agenda - perhaps hidden advertising. However, it is really important for companies to publicise what they are doing for their communities. First, it builds public awareness and helps the

public understand what corporations are doing and why it is important. Third, it helps stimulate other companies to get involved in working with the community.

I did not reach the question of what governments and NGOs can do, but maybe we can tackle that a little bit later.

THE MODERATOR: Yes, when we have heard from every speaker, perhaps in the discussion arena.

I am interested in your comments, Andy, about business partnerships. Business/NGO partnerships are a big deal in the UK, Western Europe, and the US, as I am sure you know. It is all the rage for large companies to partner up with big environmental and socially-minded NGOs and do everything from building houses to talking about climate-change policy. In your experience, in the region you have been looking after, if you are a sceptical company anywhere in this region what would you say companies really get out of these partnerships, because they can be hard to manage and tricky to set up? What is your business case that you would present to a company that says, "This is a lot of trouble"?

MR WILSON: It is very important for NGOs, on the other hand, to really try to understand what corporations want to get out of these partnerships, or what they could get out of these partnerships. In some cases, companies want to improve their image and raise public awareness of the company. It is important for NGOs to understand that and figure out how they can publicise the community partnership or the social programme they want to run together with the company.

Another thing that companies often look for is a better relationship with local government. One thing that NGOs already do very well is develop partnerships with governments to solve local social problems. We are trying to help turn this into a triangle where governments are involved - because a lot of local governments in these countries do not have many resources - and the NGOs have the knowledge and know-how about how to run an effective social programme - but then bring in another company with resources that it can bring, not just in terms of money but expertise, business management experience, and the potential for highly qualified volunteers to

become involved. By creating this kind of three-way partnership, which we are doing in a lot of different regions around these countries, you can create a sustainable partnership that can last for a long time.

THE MODERATOR: Are those kinds of partnerships happening now? Do you have any examples of what in technical terms would be called a tri-sector partnership where the government has a mandate for change, the NGO can deliver on local expectations, and the company can bring cash, logistical expertise and management capabilities to the partnership? It is a kind of win/win for everybody. Are these happening at the moment or would you like to see more of it? Are there practical examples?

MR WILSON: There are examples of it, but I would like to see more of it, and we are trying to generate more. We have a programme in Kharkiv where we have a corporation, a local government and five NGOs that are working together. The NGOs work to support disabled people in the community. There is a law in Ukraine that requires companies to hire a certain number of disabled people; but a lot of companies ignore that and pay the penalty, or they create fictitious contracts. We get together with the government, these NGOs and the corporate sector and help create a programme that identifies positions that disabled people might be able to take in different factories around the city. We set up a vocational training programme and found 500 disabled people jobs over the course of one year. The local government liked it so much that they built a line item into their local budget to keep this programme going. That is the kind of thing I am talking about.

THE MODERATOR: The challenge is to raise more awareness across the country and the region of those kinds of programmes. Thank you; that is a great example.

Jock, I asked you in this session to address your business case for corporate social responsibility at SCM and to talk us through some of the things the company has learned over the last two or three years about this. How has this worked out for you over the last couple of years?

MR MENDOZA-WILSON: Before I answer the question, I was quite interested to know the composition of the audience, because it helps work out where the interest in this session is coming from. Would you put your hands up if you are from business? Not too bad - perhaps 20 to 25 per cent! Who are bankers or from financial institutions? That is perhaps better than I imagined! Those of you from NGOs? That is not all the hands, so what about media? There are two or three media people. Government? Actually we have a fairly even spread of people.

I have been asked to talk about business, and I suppose the first thing I would say about the title of this session is that rather than talk about corporate social responsibility, to get a better understanding of what business should do we should drop "social" to one side for a moment and come back to it, and talk about corporate responsibility. What drives our business strategy in this area is our responsibility first and foremost as a business, rather than our social responsibility. In Ukraine businesses often start at the end when it comes to corporate social responsibility. By that I mean they focus on charity and sponsorship, when really business should start at the beginning. The beginning is dealing with those items that are the core responsibility of business. What do I mean by that? You have to focus on those issues that matter for your business and the long-term success and sustainability of your business, rather than society. If you focus on your business first, then the benefits to society will flow as a consequence.

In the last two or three years we have been developing a corporate responsibility strategy that is part of our integrated business strategy. Our business strategy is to build the long-term value of our companies. The focus is on the long-term. We are not a business that is looking to flip-flop and make a quick profit from buy-and-sell. We are a strategic investor in Ukraine and are here for the long term, so we take a long-term view. From our point of view corporate responsibility is one of the items you have as a strategy to build that long-term value.

I would say that corporate responsibility is fundamental to business issues. For example, to improve our business value we need to reduce risk. We need to improve the efficiency of our businesses. We need to keep our costs under control. Very importantly - if anyone was in the economics session yesterday - there was a

discussion about the war for talent in this region. It is difficult to get really talented people. So one of the big drivers in corporate responsibility for us is to attract and maintain the very, very best employees. Even if you have great access to capital, if you do not have the talent you cannot drive your business. One of the biggest bottlenecks in big business is not being able to get the great people.

We also want to motivate our workforce and protect their health and safety. As Andy said, you need to make sure you are investing in the local community that you are part of. We have designed a programme that meets those business objectives.

One of the first areas that we addressed was transparency. Businesses from this region often have a bad reputation for their management, for their open-ended transparency. They were previously seen as perhaps being corrupt, or at least shady, or whatever.

If you are going to be a responsible business you have to get away from that and be open and transparent in the way in which you deal with all of your stakeholders. The first thing you need to do is make clear who owns the business, who owns which business and how the business is managed, and look also at the financial structure and reporting of the business. One of the big steps for us was introducing IFRS reporting, which is a global accounting standard. We now have three years of IFRS audited financial accounts. You can see a summary of our accounts online - we publish them. People know who we are, who owns the business and how much tax has been paid. We have a very clear structure in place in terms of supervisory boards with independent directors, with all the checks and balances in place that you need to show that the business is properly managed.

In terms of talented people, we invest in the training and development of people for all of our staff, not just senior management but people on the shop floor working in a steel plant, because by investing in their training and management we make them more efficient. One of the biggest concerns economically in Ukraine for the country's long-term economic success is ensuring that you have increased labour productivity so that you can continue to increase and pay salaries. If you do not have that then you

hit an economic crisis problem not just for your business but for the country, so that is responsible.

For those of you who do not know, we are quite a strong and heavy industry. We mine coal and iron ore and we produce steel. We generate electricity. That is two of our business areas. Those areas have a lot of risk attached to them in terms of health and safety issues. Ukraine and the region as a whole does not have a good reputation in terms of health and safety; so as a business one of our primary responsibilities is to ensure that we improve the health and safety performance of our business and take it up to international standards. For example, if you look at our metals business at the moment you will see a programme to adopt the OHS 18000 standard so that we are meeting European standards. Although many other issues are important, nothing is more important than the issue of cutting the accident rate and the death rate in the business: that is absolutely number one for a business.

The third core area is environment. We are in some dirty businesses and we have got some really outmoded technology from the Soviet era. It requires a lot of money to invest in a steel plant or in a number of thermal generating stations to improve energy efficiency and to reduce the environmental footprint by reducing emissions. That is a long-term programme. We have a programme in place for 2012 to do that. It is not about planting trees, although that is part of the solution in some cases. It is about taking out an old outmoded blast furnace, which uses a lot of energy and produces significant particulate emissions, and replacing it with a new blast furnace. It is taking out an open -hearth furnace, which has a lot of emissions and uses a lot of energy, and replacing it with a much cleaner process. That is how we look at corporate responsibility.

It does mean working in partnership with communities where we have a large interest; so often we have formed strategic partnerships with local authorities where we look at the development goals for the city that we are part of, and then we work with the local authority to invest in the areas that are their priority. We invest money. Local authorities are under-funded and, as Andy said earlier, they have some great ideas and they often know what the needs of the community are. They do not have any money to achieve those objectives, so we help them with cash; but, more importantly, we

help them with expertise, whether to do with planning, budget and strategy, or actually helping them repair the broken district heating system or refurbish the hospital - whatever is required - but not just by giving money. It is done by having a strategic approach with a clear objective and an end product.

By taking those actions, we are pretty certain that we are adding value to our business, and that is our long-term objective. I know that countries have mission statements and you can be bored to death with them, but ours says: “Building long-term value and investing in Ukraine for the long term”. That is what we try and do, and it runs right through the core of the business.

THE MODERATOR: We are saying that CSR is about the basics first.

MR MENDOZA-WILSON: From a business point of view you have to focus on the fundamental areas of business first; and then you can look at social programmes, and work in conjunction with NGOs to create good partnerships. If you do not attack the fundamental problems of health and safety and environment, for example, you will have fundamental problems for your business, and you will not be able to make a long-term contribution to society, so you have to look at those areas first.

THE MODERATOR: Your company is working on its first CSR report. You are looking on the global reporting initiative as a tool at least.

MR MENDOZA-WILSON: Yes, for guidance.

THE MODERATOR: You are probably one of the leading companies looking at CSR in Ukraine - certainly from my research over the last six or eight months.

MR MENDOZA-WILSON: Yes.

THE MODERATOR: You have been here for a few years yourself. What have you learnt along the way? If you sat down with someone in an equivalent position in a company that was just getting started, and they said: “Jock, tell me - two or three

things you got wrong; two or three things that when you look back on it, you might have done a bit differently” - what would the key lessons be over the last few years?

MR MENDOZA-WILSON: The first thing I think we should have done at the start of the process was try to do a more detailed audit of what we were already doing. For many businesses in the region, they are fundamentally quite responsible, at least in terms of their relationship with local communities; but they are not doing it systematically. If we had done an audit earlier, on what we were doing already, although people did not know it was corporate responsibility we would have been able to make the programme more effective at an earlier stage. That would be the first lesson.

The second lesson is to try and get a framework and understanding into your business as quickly as possible. We did it reasonably quickly, but perhaps we could have done it faster by developing policies relevant to the business. Develop the policies, consult them in your business, and get buy-in, because until you have those in place you cannot move the engine in the right direction. It is not just about nice speeches on public platforms like this - this is the end result of a lot of hard work back in the office - but get some framework in place that allows you to manage and drive the process, and do it quick!

THE MODERATOR: In terms of working with local authorities, as we have heard from other panellists and yourself, obviously local authorities have the mandate. They are keen to see effective progress and changes in the areas they are responsible for, but they are short of cash and resources. At the same time, there is a suspicion of large companies all over the world. As we heard from Thomas, there is a trust issue.

Are you concerned about getting the balance right between assisting local authorities with things like cash and expertise and being accused of having undue influence, which I guess is a matter of concern for citizens all over the world?

MR MENDOZA-WILSON: It is an interesting point because you have to go and work at it, and meet the local authorities to understand their needs. If you are a city-forming asset, as are some of our businesses, the main employer in a given city,

or one of the main employers, it is possible to be seen to have undue influence over the council, but in truth when you meet with the council's - I have been on a tour meeting many of them - it does not work like that. I asked one of our clients: "What is the local authority likely to say to me when I go to meet them today independently?" They said: "Well, they are just going to ask for more money, Jock!" The interesting thing was that I went to meet the local authority, with the mayor and so on, and I asked him what he thought, he said: "We have learned a lot from this process and we are trying to take this strategy and persuade other businesses in our region to follow the same strategy, because then we will really improve our funding."

It is truly based on a principle of partnership, and if you get that right you do not have any problems.

THE MODERATOR: Transparency is the key.

MR MENDOZA-WILSON: It is. You have to develop a transparent programme, fund it transparently and report on it. If you can do that, you will not have problems. If you do it behind closed doors, and no-one knows which hand gives the money, and what the money is spent on, then you have problems. That is how it used to be.

THE MODERATOR: We can return to these points later in discussion. We are going to ask Igor to make some remarks; he runs WWF in Russia and has done for ten years now.

MR CHESTIN: Almost twelve years.

THE MODERATOR: So you have been at the forefront of the explosion of CSR interests, certainly on the environmental side, in the last ten or twelve years. What do you think are the key trends at the moment?

MR CHESTIN: I would like to second what Thomas said about the growing contribution of businesses in the region to charities and different types of philanthropies. I do not have figures for the whole region, but in Russia, charity

accounts for approximately US \$1.5 billion a year, and a relatively small portion of money comes from abroad; it mostly comes from national companies or individuals.

I wanted to say in particular - having such a great audience here - that very often we see industry or individuals setting up their own foundation, normally as a separate entity; and then that foundation starts to run its own programmes. That is not necessarily the most efficient way to go because you need to set up a new professional team, and in many cases these programmes are less efficient than they would be if they were run by specific NGOs specialising in that area.

If an industry or an individual is interested in going in to philanthropy, my advice is that the best way would be to get a good NGO partner. Then, besides solving a specific problem, like taking care of orphans or the elderly or solving environmental issues, it would also contribute to development of civil society, which is a crucial development factor in our region.

From our NGO perspective corporate social responsibility does not stand alone; it depends on specific market conditions in a particular country at a particular time. It depends on their regulations and enforcement of the regulations. In some cases it is just a case of paying taxes and obeying the law; but in some cases it is not. The clear example is my country where we do not have any legal requirement for an environmental impact assessment, and you can build an oil refinery right in the middle of a residential area, with no public consultation, and it will be perfectly legal. Would it be responsible? I do not think so.

What we see as corporate responsibility is taking these factors into account and defining what is responsible for this particular company in this particular country, with these market conditions and the current regulations. That is a very important point. It differs from what we see as being responsible or irresponsible behaviour.

We also see neglect of environmental issues by the government over the last eight or nine years. That is partly compensated by growing responsibilities of businesses and growing awareness of the public. There are some compensation mechanisms, and that is why it is not yet a disaster - and hopefully it will not be a disaster!

It is happening, and for us the litmus test for responsibility especially of big companies will be the position of certain big industries in relation to the negotiations on the new agreement on climate change. That is a major thread. Leaving aside scientific debate, which of course will continue, there is no doubt that we have to face the situation that we have to cut emissions quite dramatically.

In my view, if a company plans its development a long while ahead, it should take the measures that are needed, not as a threat to the business but as an opportunity. Just addressing climate change and just cutting emissions would bring many positive effects. It would create more jobs and decrease dependency on fossil fuels; and through that it will diminish the number of conflicts, including military conflicts. It will bring more democracy because there will be more decentralisation of supply, so there are many positive side effects that we can plan to build on.

If businesses are planning their long-term strategies, part of those strategies should be lobbying for stricter regulations than the governments are currently ready to agree. That is what we need to resolve the biggest issue. That is a new dimension. We now see that part of the corporate social responsibility is not just obeying the law or lobbying for a weakening of the regulations, but it is also lobbying from the business side for strengthening the regulations and going ahead. Then I think that the governments and the NGOs will be very supportive.

THE MODERATOR: There are a couple of quick questions for you. Environmental impact assessments are very much part of what big multinational companies do these days in large infrastructure projects in most parts of the world, simply because financing and reputation means that it is just expected. Are we seeing the multinational companies doing voluntary environmental impact assessments in Russia? I would assume so. Secondly, are Russian companies starting to do them voluntarily?

MR CHESTIN: Absolutely. Both Russian and multinational companies continue to do their own assessments. The problem is that they appear to be in a situation where even though they do an assessment, it does not have any legal status. Every time they

abandon or cancel the obligatory environmental impact assessment, the government puts companies in a more vulnerable position. Before, they had a paper saying that if they followed the project recommendations, that would be fine; but now they do not; nobody gives them this paper. Therefore they start doing their own assessments but at any time, for whatever reason, political or simply due to competition, people can come and say, “You are doing wrong”. On one side it seems as though cancelling the EIA is lifting an administrative barrier, but on the other side it makes business more vulnerable. Companies here do that. There are many examples. We have had a whole revolution in the forestry sector over the last ten years: about 40 per cent of the Russian commercial forests are now voluntarily certified according to the Forestry Stewardship Council standards. That is purely voluntary. Why? It is because it helps companies to improve their performance.

Many companies found that their sub-contractors were stealing wood from their premises, and that kind of thing; but going through the certification process they simply improved their performance.

THE MODERATOR: On the lobbying side of things, companies sometimes complain that NGOs want them to lobby about some things but not about others. They say: “The NGOs want us to lobby for more environmental regulation, but they do not want us to lobby for lower taxes. Companies sometimes see this as being inconsistent. Do you see a time when the large companies that you work with will do what some of the companies in the Climate Action Partnership or in the UK Group on Climate Change have done, and start gathering together and looking beyond 2012 and start to put pressure on the Russian Government on carbon? Do you think that is realistic in the next five or ten years, or are we working on a slightly longer timescale?

MR CHESTIN: I do not think it is a matter of complaint from the business side. What I am saying is that it is for the profit of the company; it is not that we are asking the business to lobby; it is just that it is profitable for the company to do that in the long run. The ones that get there first will have a competitive advantage in the market, clearly. It is not because we are asking them; it is just because, if they are long-sighted, they should be interested.

I think it is realistic that we have that situation in Russia.

THE MODERATOR: The next five years?

MR CHESTIN: Yes.

THE MODERATOR: So the big aluminium companies and the big industrial firms will start seriously looking at -----

MR CHESTIN: There will be some companies that are very reluctant to do that; and other companies will be very much for it. When it comes to cutting emissions and making a new industrial revolution, the principal thing is timing, the technological inertia! If you introduce the new regulation, which comes in to force tomorrow, that will collapse it; it will kill the business and eliminate jobs. But if you say that in five years from now that will be standard, and you say, "You guys have five years to develop your strategy and how you come to that standard", then it is fine and not a problem.

It is like the UK, when conventional electric bulbs will become illegal. Nobody worries about it because people have had enough time to prepare.

THE MODERATOR: There is a positive outlook out there.

MR CHESTIN: Yes.

THE MODERATOR: Rodion, we asked you to address your role. You have a dual role, one inside your company, which is one of Ukraine's largest industrial conglomerates. Second, you are involved with the ISO process around CSR. Of course, you will all know about ISO and 9000 and 14000. Some of you may have heard about 26000, which is the guidance standard on social responsibility, which the ISO has been developing with a multi-stakeholder group globally. Rodion has been involved as Ukraine's representative. Can you talk us through your experience so far, because this is likely to be a significant development, is it not?

MR KOLYISHKO: It is very good to be talking about standards. We heard the brilliant presentation about the business case in Ukraine and CSR development, but we, together with Jock, are in the process of development in relation to ISO 26000 on social responsibility. I would like to share with you some experience of this process. Those factors and what we see in Ukraine now - what Thomas described as a revolution have happened in other countries. It has resulted in one great international initiative, which is called ISO 26000, guidance on social responsibility.

Why ISO? You see here one of the expressions of Kofi Annan; he says that ISO standards are crucial for development, not only in technological know-how, but as we see now also from the social side of development.

I think that some factors are the basis of social responsibility development in the world. Here are some, but this list is not final. The last point is the most interesting and the most challenging: what else could be the factors that provoke further CSR development in the world?

What is ISO 26000? Some years ago, in 2005, the initiative of elaboration of this document was commenced, which is not standard. Even in its title you will see that it is guidance, so it is not a typical ISO document. You can see the main points: this is the international standard and this is the international document. This document is not intended for third-party certification. Some people say that maybe after five, ten or fifteen years of the document's existence there could be third-party certification. There is evidence that in some countries there is certification, but this is not the main objective of the documents.

The point I would like to emphasise is that these documents should be implemented by all stakeholders and organisations.

I apologise for the text on the screen, but this is the key issue of social responsibility in the context of an ISO document. Any organisation that is going to implement or elaborate its own social responsibility concept should contribute to sustainable development and address stakeholders' expectations, which should be in compliance

with the applicable laws. The social responsibility strategy should be realised through the concept of the social responsibility strategy of any organisation.

What are the main issues of social responsibility within the ISO context? You see here the picture. All these boxes are reflected in the standard text. They are described, and this is all that is meant by social responsibility within the ISO initiative.

These are the main stakeholders of social responsibility from the ISO point of view. You see that one of the main issues of the standards is that it is not only businesses or NGOs that are the key elements of social responsibility, which is not commonly understood; the government, labour, consumer organisations and different national bodies are the subjects of social responsibility under the understanding of ISO 26000.

Where are we now? You see that these are the stages of any ISO development document. I remind you that we began work in 2005, and we are still on stage 2, the preparatory stage. The next slide illustrates this stage. You can see how many stages are in front of us. The implementation of ISO 26000 was foreseen in 2009, but that is not far away, and we are only at stage 2. This work could be finalised in 2010 if in August this year in San Diego the conference of international experts were to move the standards from the working draft to the committee draft.

What does that mean for this document? It means that at the stage of the committee draft any amendments or suggestions or any other things that could be addressed to the ISO team could only be done by national consensus and by national committees that reflect the stakeholders' engagement process on ISO development.

What happened after ISO 26000 implementation? Some risks were reflected in the forum at the beginning of April that was organised by our national Ukrainian committee for countries of this region. We can see that these three risks are quite important for Ukraine and for many central European countries: first, not understanding this document or the purpose of it; second, that ISO 26000 must be certified - and this is completely wrong; third, and the most important one, that ISO is only for business - which is not right.

What benefits could there be after implementation of ISO 26000? The main objective of these documents and the main objectives of social responsibility and sustainable development all over the world is for sustainable development of society to be achieved through economic growth, environment, integrity and social equity. These are the main reasons for the elaboration of the ISO document.

THE MODERATOR: Thank you, Rodion. ISO is a very important process, as those of you in business will know. ISO 26000 will be quite interesting as it develops over the next few years. We will come back to a particular question on that later. We have plenty of time for comments, questions, discussion and debate.

Who has a question for one of our CSR experts up here? We have covered quite a lot of ground here, and one of the frustrating things about corporate social responsibility is that it can mean just about anything, from helping that tiger in the zoo to talking about anti-corruption and corporate governance. It covers a wide variety of issues, as we have heard - anything from environmental impact assessments to working with local governments and communities. However, we must have stirred some thoughts in some of your minds, so we would like to hear from the audience and have some interactivity. Who would like to be first? Alternatively I can just point at someone and ask them to offer a comment! That is an option.

MR ANTONOV (Chief Editor of Green Horizon): I am Editor of Green Horizon, a magazine for eastern and central Europe, published in Budapest. We have worked with a group of journalists from the former Soviet Union in the past few days, and a question kept popping up, which I thought I would address to you so that I can hear your opinion. Why would a public financing institution like the EBRD put money into helping big international companies that have enough resources to take care of the environment or labour, safety and all the other issues? Is it the right thing to do, or is there more room for other institutions to play their role in a better way?

THE MODERATOR: The question is: should the EBRD be focusing more on social environmental considerations in the companies they lend to, or should they invest more money themselves in programmes?

MR KOLYISHKO: Should they give money to such companies at all, maybe! The question is open.

THE MODERATOR: It is lending rather than giving, I think. The EBRD might like to clarify that! Your point is a good one and well made. Who would like to take this up on the panel?

MR MENDOZA-WILSON: I cannot answer on behalf of the EBRD, but I will give you the business rationale about it. EBRD's job is to look at helping strategic investment in the long-term in developing economies in the region. One of the criteria is that, as a public body whose financing is provided by a number of countries, it has to take the lead in issues such as responsibility. One would expect that through that process the EBRD would look very carefully in its investment programmes at the corporate responsibility and corporate governance of businesses and at their environmental responsibility, because the EBRD is looking for the businesses it invests in to be flagship projects in the countries it invests in, to set the standards for investment. The EBRD plays a leadership role in the investment community. This forum, which is essentially about banking and finance, shows that leadership; so it is the correct role for the EBRD to be involved in - providing commercial investment into businesses and encouraging those businesses to improve their corporate responsibility, and making investments that improve environmental responsibility.

THE MODERATOR: Igor, what is your view on this? We were talking about this last time.

MR CHESTIN: From our perspective it is not that big difference which company gets law; it is more about which standards the company applies. As many of you probably know, we have had a very tough discussion with the EBRD for a number of years about one of the big oil projects in Russia where we thought these are not the standards we would like to see in the country - that this is pulling the standards down compared to what we have in other places.

In general, I would agree with what Jock said. It is giving an example. It is showing the developing financial institutions at a national level and the procedures they need to apply before making an investment decision. It is also the role for the future development of international financial institutions.

THE MODERATOR: Andy, Rodion, have you any comments to offer on this question?

MR WILSON: From what I know about the way that the EBRD approaches its investments it does a lot of due diligence and it really is focused on trying to eliminate corruption and improve health and safety and focusing on making sure that its investments are observing environmental standards. I think it is important for other banks to follow the EBRD's lead and hold their investments to similar standards.

MR KOLYISHKO: There is a difference between EBRD and other commercial banks. The EBRD has its own priorities. For the moment, CSR projects are not at the moment discussed in many other conferences, but I think that this discussion flags the interests of this institution in social responsibility development. I think that international organisations like the EBRD will put it in the list and address more effort to this development. I agree with Igor that it does not matter who earns money from the Bank but other banks have to have their own strategy for sustainable development. They have to make their own decisions.

THE MODERATOR: Certainly the financial sector has attracted a lot of opprobrium from various NGOs over the last few years, and the Equator Principles on project finance have made a start on incorporating social and environmental governance risks into investment decisions, but there seems to be a large gap after that in certain other areas.

CHRIS SOREK (EBRD): A social environmental policy was recently taken around to different NGOs in our region to get their comments. Those policies have gone through the Board, been approved and is up on our website. You can see what we are doing not just in terms of the environmental and social policy and what, for every one of the projects that we get into, we measure up against those, but in addition a public

information policy, which also talks about the openness and transparency that we give to all of our communications. If you would like to take a look at www.ebrd.com you can see the policies right there.

THE MODERATOR: Transparency efforts from the EBRD - and they seem to be leading the way compared to other banks who operate on a similar basis. You do seem to like the agenda a little bit more.

We have another twenty minutes!

A SPEAKER (Chairman, Public Committee for National Security, Ukraine): I knew one very socially responsible businessman in the Russian Federation who gave money to open educational centres and to make a democratic transition. His name was Khodorkovskii. A few years after the development of the Russian Federation we tried to find some money to make a democracy transition in the Russian Federation to support the Moscow School of Political Sciences and so on. No-one gave money because social responsibility was seen to be something like a charity for a hospital or something like that, but not a general charity and general social investment in democracy and civil society development. The same situation is in Ukraine. When we started in 2003 to form a civic campaign, we tried to find money to make democratic changes and form structures of civil society. No corporation in Ukraine was interested in that. Only after we had done some work ourselves did we form a civic campaign and in the middle of 2004 businessmen understood that democracy is in the common interest and that they would have to invest in changes to form civil society. They had no benefit from that, but society had the benefit.

I was greatly impressed during the Orange Revolution in 2004 that a lot of businessmen came to my town and gave money, food and so on, without any profit for themselves. The Orange Revolution stopped, and social investment also changed because social responsibility today is, for example, to give money to some foundation of the wife of the Ukrainian President to build a new hospital or to support some other venture or to finance some organisation that provides business communication between Ukraine and the European Union. However, today I could not find in Ukraine a situation where businessmen give money to an educational centre for

lawyers, civil society, human rights defence centres - and that is unbelievable to me. Today we try to make some initiatives to educate Ukrainian youth. It is a general campaign, but we could not find any money in Ukraine. I have heard your speeches, and you are right because in Ukraine perhaps there is a little ... understanding of social responsibility because today corporations in our conditions try to find benefit from social investment. That is why it was a comment and not a question. When we are speaking about social responsibility, what is it? Is it a social investment with some benefit for the future, or is it a social charity? What does it mean?

THE MODERATOR: I will ask the panel to offer a very brief response. Is it charity, or is it more strategic?

MR KOLYISHKO: I think it is both charity and strategic. When we talk about social needs, they have to find an understanding from the point of view of the company because by its nature a company earns money and doing something for society and doing something strategic or local - a company needs to be sure that the money it gives to any project is safe and spent properly. It is better that the company has a profit from it - not even financial or social; it should be a mutual process.

To answer your question, social responsibility is both charity and a strategic issue, like social investments.

MR WILSON: I think you are absolutely right. There are topics and themes that a lot of corporations will not want to support. It is not just in this part of the world; I can think of topics in the United States that NGOs and corporations would not want to support for a variety of reasons. It is important to remember that one of the basic foundations of the whole concept of corporate social responsibility is that it is a voluntary effort. It is up to NGOs and corporations to work together to find the right kind of partnership; but you cannot expect companies to want to fund everything under the sun.

MR MENDOZA-WILSON: The others have made good comments. Business decides where it will make its social investment. We tend to focus, as a business, on areas that are relevant to business. On the other side, our shareholder has a

foundation for the development of Ukraine. The objective of that foundation is to make social investment. For example, over a three-year period it was one of the founders of the EERC Masters Degree in Economics at Kyiv Mohyla University.

Thomas is not here, but I will say a word about what I know about the Pinchuk Foundation. It established the Kiev School of Economics, which is a major endowment, to improve education; and that has a very broad programme and holds a series of discussions by world leaders on issues related to economics but including human rights and micro-economics, micro-loans and so on. I think you should expect business to make a contribution that is relevant to business; but perhaps broader foundations like the Soros Foundation have agenda like broader issues of sustaining democracy and supporting human rights. We should each focus on what is right for our business and for our strategy, but collectively through foundations and business there has been a big movement in Ukraine, at least during the three years I have been in the country.

MR CHESTIN: In my view the term “social responsibility” relates specifically to the core business of the company. Giving money out is philanthropy. When we are talking about a responsible company, it primarily relates to what the company does as its mainstream activity. Philanthropy is another thing.

I wanted to comment briefly on what you said about support for general civil society institutions. What we learnt in Russia over the last years is that, as you may know - there have been difficult times for NGOs after the adoption of the new law in 2006. We analyse why it happened and what is the point. I think many of us from NGOs felt quite comfortable in the nineties, when there was a lot of support for just building democracy. To some extent, many organisations lost the link to society, so they became more like grant implementers than defenders of civil rights. That is why there was no public support for NGOs when the government made that attack.

Unless you are deeply rooted with individuals, not with companies, as an NGO you would be very vulnerable to be bought by business or to be attacked by the government, because that is what gives you strength. Unfortunately, many organisations did not use their time when the funds were provided, mostly from

abroad, to build their own constituency in the country. Now, we have the result of that. The organisations that have deep roots in society are not really affected by all those changes; but the ones that used to be beyond this fine line between being an NGO and being a consultant appear to be in trouble.

The way forward is to try to get funds from individuals. When we signed an agreement with one of the Russian banks a few years ago, the guy said - the head of the bank, one of the oligarchs - "The matter is not that I am giving \$1 million; the matter is that a million Russians would give you a dollar each."

THE MODERATOR: That is an important distinction. On your point about institutions, we have just completed a two-year study of multinational corporations contributing to the development of capacity of institutions around the world, and there are a few isolated cases, but there are interesting trends where it links to business. You are seeing now some oil companies involved in enabling the creation of judicial human rights training programmes in places like Nigeria and Venezuela. You see oil companies convene human rights training even for military dictatorships in certain countries; and BP in Azerbaijan are looking at how they can contribute to macroeconomic training within the Azeri government - in a very careful way I should point out because they are very nervous about it! There are some examples of companies becoming involved in capacity-building and institutions, but we are saying we need to see more of it.

A SPEAKER: I am from Amber Public Relations Company, which is based in London. My question is to Mr Mendoza-Wilson from Systems Capital Management. I would like to share an observation from my life in London. Soon after the Elton John concert in Kiev there was a huge amount of coverage in the British media about this event, and it seemed like the Victor Pinchuk Group is associated increasingly with numerous humanitarian initiatives that they pursue, of which the Elton John concert is just one. I am sure you could name many others.

Your industrial group obviously wants to position itself in Ukraine and the Western media. The example of the Victor Pinchuk Group - to some extent they established a precedent in Ukraine in terms of PR and image-making: are you going to follow this

pattern and pursue humanitarian initiatives as well, or will you be trying to carve a niche for yourself and try a different PR strategy. This could be a little bit difficult because corporate social responsibility - when you talk about health and safety or the environment, these are glamorous initiatives, and it is very difficult to secure coverage for them. It is much more difficult than securing coverage for an Elton John concert. What would your strategy be?

MR MENDOZA-WILSON: It is a very interesting question, but it goes to the fundamental heart of the difference between corporate responsibility and philanthropy. If you take the Elton John concert in Kiev, that was from the Victor Pinchuk Foundation, Victor Pinchuk's philanthropic foundation; it was not an action of Interpipe, which is the business which does have its programmes but it implements its programmes in different areas. You have to differentiate between philanthropy on the one side and business on the other.

From our point of view corporate responsibility is not about good PR; it is about fundamental actions in our business that make our business more effective but also benefits society. We are not concerned if we do not get marvellous headlines about a concert. I think that what the Victor Pinchuk Foundation has done has been excellent. Our shareholder has a philanthropic foundation that has its own strategy, to make social investment in Ukraine. For example, while Victor Pinchuk has chosen AIDS and HIV as the area to be active in, the foundation of our shareholder, Mr Akhmetov, has taken tuberculosis as the area it will concentrate on. That is because no-one was investing in that area in Ukraine, and it was a great need because the infection rate in Ukraine is extremely high. It is a public health concern of almost epidemic proportions. So the foundation has partnered with the WHO and the Ministry of Health and local authorities to implement a TB programme as a trial programme in the Donetsk region, but also a huge public information campaign to explain to people how TB can be avoided or how it should be treated if you catch it. We have a different strategy, but nonetheless the shareholder's foundation focuses on philanthropy whereas we focus on the businesses - the environment, health and society, training and development, salaries and good working conditions for our colleagues. It is about strategy and separating corporate responsibility from philanthropy. As I said, PR is not our core concern.

A SPEAKER (CEC Government Relations, Warsaw): I have a brief comment that relates to the essence of what we are trying to discuss, which is how we define a CSR initiative. Judging by the comments from the panel and the audience, there is a lot of confusion about the definition. We have seen the contrast with philanthropy being raised and so on. An important measure of a genuine CSR project is the extent to which the partners treat each other. There are two challenges or temptations or threats that need to be very carefully avoided. One that has already been alluded to here is the natural temptation of the corporate side to instrumentalise a CSR project and use it as a PR tool; in other words to lose sight of what the social goal of that activity is and really subordinate it to the PR or advertising goals of the institution, which is one threat Jock identified as something that they are trying to avoid. The other temptation is on the NGO side. There are increasing examples, particularly in Western Europe, of where they have - I do not want to use too hard a word, but essentially they have prostituted themselves to corporate interests and allowed themselves to be used in a fairly mercenary fashion, particularly on the lobbying front. It is quite common now for corporations to set up fraudulent NGOs as a front for a lobbying campaign in the European Commission or the European Union. That is the other challenge, to maintain the dignity of NGOs and not allow them to be used in that fashion. As long as the partners treat themselves with respect, it is easier to ensure that the social goals that the CSR project is serving are genuinely realised and not pushed into the background.

THE MODERATOR: The one word to summarise what you are saying is “transparency”. Indeed, the European Commission is now cracking down on the lack of transparency and lobbying at the moment. Quite how effective that will be remains to be seen.

That is a nice point to end on; that transparency is the key here. As our panel pointed out, CSR is about being clear about your aims and keeping it very separate from philanthropic activities. Keep sponsoring those tigers, but do not call it CSR! Thanks to our panel. **(Applause)**